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Consolidated Financial Results for the Three Months Ended March 31, 2022 [Japanese GAAP]

May 13, 2022

Company name: Uzabase, Inc.
(herein referred as the "Company," and together with its consolidated subsidiaries, the "Group")

Stock exchange listing: Tokyo

Code number: 3966

URL: http://www.uzabase.com

Representative: Yusuke Inagaki Representative Director and Co-CEO/CTO
Taira Sakuma Representative Director and Co-CEO

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Phone: +81-3-4533-1999

Scheduled date of filing quarterly securities report: May 13, 2022

Scheduled date of commencing dividend payments: Not applicable

Supplementary material on quarterly financial results: https://www.uzabase.com/investors/library/

Scheduled date of quarterly financial results briefing session: May 13, 2022

(Amounts less than one million yen are rounded down)

1. Consolidated financial results as of and for the three months ended March 31, 2022 (from January 1, 2022 to March 31, 2022)

(1) Consolidated operating results

(% indicates changes from the previous corresponding period)

	Net sales		EBITDA*		Operating income		Ordinary income		Net income attributable to owners of the parent	
Three months ended:	¥Million	%	¥Million	%	¥Million	%	¥Million	%	¥Million	%
March 31, 2022	4,305	11.0	658	(20.2)	517	(28.8)	700	5.3	418	(11.5)
March 31, 2021	3,877	-	825	−	726	−	665	−	472	−

*EBITDA is calculated by adding depreciation and amortization, amortization of goodwill, and stock compensation expenses to operating income (loss).

(Notes)

Comprehensive income: Three months ended March 31, 2022: ¥ 652 million [41.2 %]
Three months ended March 31, 2021: ¥ 462 million [- %]

	Basic net income per share	Diluted net income per share
Three months ended:	¥	¥
March 31, 2022	11.37	11.10
March 31, 2021	12.91	12.55

(Note)
Effective from the beginning of the three months period ended March 31, 2022, the Company has applied "Accounting Standard for Revenue Recognition" (Statement No. 29 issued by the Accounting Standards Board of Japan). The figures for the three months ended March 31, 2021 in the table above have been restated in accordance with the newly applied accounting standard. Therefore, the year-over-year percentage changes for the three months ended March 31, 2021 are not presented.

(2) Consolidated financial position

	Total assets	Equity	Capital-to-asset ratio*
	¥ Million	¥ Million	%
As of March 31, 2022	19,557	10,326	35.4
As of December 31, 2021	20,312	9,911	31.7

*Capital-to-asset ratio is defined as capital divided by total assets. Capital represents the total of shareholders' equity and accumulated other comprehensive income.

(For reference)
Capital: As of March 31, 2022: ¥ 6,922 million
As of December 31, 2021: ¥ 6,437 million

(Note)
Effective from the beginning of the three months period ended March 31, 2022, the Company has applied "Accounting Standard for Revenue Recognition" (Statement No. 29 issued by the Accounting Standards Board of Japan). The figures as of December 31, 2021 in the table above have been restated in accordance with the newly applied accounting standard.

2. Dividends

	Dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	¥	¥	¥	¥	¥
Fiscal year ended December 31, 2021	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2022	-				
Fiscal year ending December 31, 2022 (Projected)		0.00	-	0.00	0.00

(Note)
Revision to the dividend projection announced: Not applicable

3. Consolidated Financial Forecasts for the Fiscal Year ending December 31, 2022 (from January 1, 2022 to December 31, 2022)

Under the purpose "Awaken a world of play in business, with our insights." that the Company announced in December 2021, the Group aims to achieve an average sales growth rate of 30% and EBITDA margin of 15% for the year ending December 31, 2025 by merging SaaS and NewsPicks from the year ending December 31, 2022 onward. In the year ending December 31, 2022, as to SaaS business, the Group plans to proactively invest in high-growth products to accomplish both a sustainable sales growth rate of 30% and stable earnings. As to NewsPicks business, with the aim of raising awareness of its services, the Group plans to implement marketing investments in stages while assessing their effectiveness. Based on the above, the Group expects net sales ranging from ¥19,500 to ¥20,000 million, EBITDA ranging from ¥1,000 to ¥1,500 million, and operating income ranging from ¥400 to ¥900 million for the year ending December 31, 2022.

For details, please refer to "1. Qualitative Information on Quarterly Operating Results, (4) Forecasts for the Fiscal Year Ending December 31, 2022."

(% indicates changes from the previous corresponding period)

	Net sales		EBITDA		Operating income		Ordinary income	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Full year	19,500 to 20,000	24.0 to 27.2	1,000 to 1,500	(46.6) to (19.9)	400 to 900	(72.0) to (37.0)	400 to 900	(74.1) to (41.7)

	Net income attributable to owners of the parent		Net income per share
	¥ million	%	¥
Full year	–	–	–

Revision to the most recent announced forecasts: Not applicable

(Notes)

1. EBITDA is calculated by adding depreciation and amortization, amortization of goodwill, and stock compensation expenses to operating income (loss).

2. Effective from the beginning of the three months period ended March 31, 2022, the Company has applied "Accounting Standard for Revenue Recognition" (Statement No. 29 issued by the Accounting Standards Board of Japan). The year-over-year percentage figures are computed based on the previous year operating results retrospectively adjusted in accordance with the newly applied accounting standard.

Notes

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

(2) Simplified or particular accounting treatment for quarterly consolidated financial statements: Not applicable

(3) Changes in accounting policies, estimates and restatements
(a) Changes in accounting policies due to the revision of accounting standards:
See "Notes to Quarterly Consolidated Financial Statements, (Changes in accounting policy)"
(b) Changes in accounting policies other than (a) above: Not applicable
(c) Changes in accounting estimates: Not applicable
(d) Restatement: Not applicable

(4) Number of issued shares of outstanding common stock
(a) Number of common stock issued, including treasury stock, as of:
March 31, 2022 36,868,766 shares
December 31, 2021 36,750,126 shares
(b) Number of treasury stock as of:
March 31, 2022 304 shares
December 31, 2021 258 shares
(c) Average number of common stock for the three months ended:
March 31, 2022 36,781,394 shares
March 31, 2021 36,590,662 shares

*This quarterly financial report is not subject to review by certified public accountants or audit firms.

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

The forward-looking statements in this report, such as forecasts, are based on information currently available and certain assumptions that the Company believes to be reasonable. Therefore, actual results may differ from the aforementioned forecasts depending on various factors. Please refer to "1. Qualitative Information on Quarterly Operating Results, (4) Forecasts for the Fiscal Year Ending December 31, 2022" of the attached materials for the assumptions used in the forecasts of financial results and cautions concerning the use of the forecasts.

1. Qualitative Information on Quarterly Operating Results

(1) Operating Results (from January 1, 2022 to March 31, 2022)

Revenue in the IT service industry in Japan has increased for ten consecutive years and amounted to ¥14.1 trillion in 2021, up 9.7% year-over-year (source: Survey of Selected Service Industries, the Ministry of Economy, Trade and Industry, Japan [February 2022]). The SaaS (Software as a Service: Web services with a monthly or annual subscription business model) market in Japan also recorded a compound annual growth rate of 13%, whereas DX (Digital Transformation) initiatives are accelerating towards 2025 and the needs for transition from packaged software to SaaS are increasing in various business categories. In addition, work from home is becoming more widespread due to the impact of COVID-19 and small-to-medium-sized companies, which used to be reluctant to make IT investments, are now adopting software. As a result, the SaaS market in Japan is expected to grow to approximately ¥1.4 trillion in market size by 2025 (source: 2021 New Market of Software Business, Fuji Chimera Research Institute, Inc.). Personal smartphone ownership rate reached 69.3% in 2020, up by 1.7 percentage points year-over-year (source: Communications Usage Trend Survey, Ministry of Internal Affairs and Communications, Japan [June 18, 2021]). Furthermore, the market size of the internet advertisement exceeded ¥2 trillion for the first time in 2019 and reached ¥2.7 trillion in 2021, an increase by 21.4% year-over-year, overtaking the TV media advertisement (source: 2021 Advertising Expenditures in Japan, DENTSU INC. [February 24, 2022]).

As to the COVID-19 pandemic, which started around March 2020, the number of people infected temporarily decreased significantly because of the restraint on people's flow based on the state of emergency and semi-emergency spread prevention measures as well as the progress of vaccination. However, the economic condition is still difficult to predict due to the spread of the new variant and other factors.

In the new society coexisting with COVID-19, the Group recognizes that the needs and expectations for the Group's services, such as introduction of cloud services and high-quality media content, are expected to increase even further.

Under such circumstances, the Group's businesses were continuously expanding during the three months ended March 31, 2022 ("1Q22"), and as a result, the Group recorded net sales of ¥4,305 million (up 11.0% year-over-year). In terms of profitability, due to the investments in growth that the Company has been making, the Group recorded EBITDA of ¥658 million (down 20.2% year-over-year), operating income of ¥517 million (down 28.8% year-over-year), and ordinary income of ¥700 million (up 5.3% year-over-year). Net income attributable to owners of the parent was ¥418 million (down 11.5% year-over-year). This was primarily due to income taxes of ¥108 million.

Effective from the beginning of 1Q22, the Company has applied "Accounting Standard for Revenue Recognition" (Statement No. 29 issued by the Accounting Standards Board of Japan). The year-over-year comparisons and analysis herein are based on the figures for the three months ended March 31, 2021("1Q21") and those for the year ended December 31, 2021 ("FY21") that are retrospectively adjusted in accordance with the newly applied accounting standard.

Effective from the fourth quarter period ended December 31, 2021 ("4Q21"), the Group has changed its reportable segments.

Prior to 4Q21, the Group's B2B businesses were classified into two reportable segments, namely, SPEEDA Business and Other B2B businesses (presented as "Other businesses" in and before the year ended December 31, 2020). Effective from 4Q21, such businesses have been reclassified into a single reportable segment, namely, SaaS business.

Likewise, the Company's consolidated subsidiaries, AlphaDrive Co., Ltd. and AlphaDrive Kochi Co., Ltd., and "NewsPicks Enterprise" and "NewsPicks Learning (for business)" that are operated by NewsPicks, Inc., which had been included in NewsPicks business, have been integrated into "AlphaDrive/NewsPicks" ("AD/NP") and included in SaaS business.

Moreover, SPEEDA EDGE, which had been classified in "Other" that was not included in reportable segments, has been reclassified into SaaS business.

The reasons of changing the reportable segments are as follows:
(1) The Group plans to manage SPEEDA Business and Other B2B businesses in a unified manner including cross-selling, as both SPEEDA and Other B2B services are SaaS businesses that utilize common core assets.
(2) AD/NP is an enterprise-focused SaaS solution business that utilizes the NewsPicks platform.
(3) AD/NP, SPEEDA, FORCAS, and INITIAL all utilize the NewsPicks platform, and therefore, including only AD/NP into NewsPicks business does not properly reflect the actual state of the businesses.

Based on the above, the Group reclassified its businesses into two reportable segments, namely, SaaS business and NewsPicks business.

Operating results in each reportable segment are presented as follows.

Effective from 1Q22, the Company changed its performance indicator. In relation to this change, the Company also changed the measurement method of segment profit. Under the new measurement method, company-wide expenses that are not directly attributable to services and business of each reportable segment (costs of being a listed company, audit fees, executive remuneration, and others), which had not been allocated to each reportable segment, are allocated to each reportable segment. The Company previously disclosed Direct EBITDA and segment EBITDA; however, effective from 1Q22, only segment EBITDA is disclosed because the Company has set segment EBITDA as a sole key performance indicator.

Segment EBITDA is calculated by adding depreciation and amortization, amortization of goodwill, and stock compensation expenses to segment income (loss).

(a) SaaS business

SaaS business offers SaaS products that support customers to implement agile management (management that adapts quickly to changes in circumstances from the customer's viewpoints). The Group considers that in order to support customers to realize implementation of agile management, it is necessary to provide business strategies, customer strategies, and organizational strategies. The Group's products designed for these strategies are:

(1) Business strategy:	SPEEDA, INITIAL, and SPEEDA EDGE
(2) Customer strategy:	FORCAS and FORCAS Sales
(3) Organizational strategy:	NewsPicks Enterprise and Incubation Suite provided in AD/NP

Since the Group places importance on expansion of recurring revenue, the Group has set ARR (Annual Recurring Revenue that represents the subscription revenue to be earned over the next year, which is equal to 12 times the amount of Monthly Recurring Revenue) as the most important key performance indicator.

Among the multiple products that the Group offers, the main product is currently SPEEDA, the product that the Group has offered since its establishment. SPEEDA business has steadily accumulated new orders and succeeded in upselling to existing customers with its operating organization including the customer success team that were strengthened in FY21. The Group also has made progress in acquiring new orders in Asian markets, mainly in China, where the impact of the COVID-19 pandemic has calmed down. The average churn rate for the most recent 12 months at the end of 1Q22 improved by 0.1% to 0.9% as compared to that at the end of 4Q21 and has remained below 1.0%. In addition, SPEEDA EXPERT RESEARCH, which the Group set as a key investment area in FY21, is being used not only by consulting firms, but also by business companies. Flash Opinion, a feature of SPEEDA which allows users to submit questions to and receive text responses from five or more experts within 24 hours, also contributed to expansion of net sales.

FORCAS, which was released in 2017 as a spinout from SPEEDA to support customer strategy, has been adopted by enterprises. In addition, FORCAS Sales, which was released in 2020, has also been adopted by FORCAS customers and is maintaining a high growth rate.

As to AD/NP that supports organizational strategy, NewsPicks Enterprise, a customized NewsPicks for corporate customers that realizes human resource development and organizational revitalization, and Incubation Suite, a comprehensive support product specialized in new business development that combines the necessary supports for new business development into a single platform, have made progress in acquiring new customers and achieved to record a high growth rate.

Based on the above, ARR of SaaS business at the end of 1Q22 amounted to ¥10,324 million and the growth rate steadily rose to 28.0% year-over-year. Segment sales amounted to ¥2,905 million, up 26.5% year-over-year. In terms of profitability, SPEEDA, the Group's main product, has achieved a high rate of profitability, and INITIAL, a startup information platform, also contributed to earnings. On the other hand, FORCAS, FORCAS Sales, AD/NP and other products are currently in the red because these products are now in the phase of proactive investments aiming for high growth. As a result, SaaS business recorded segment profit of ¥397 million (down 12.8% year-over-year) and Segment EBITDA of ¥499 million (down 2.1% year-over-year).

Note that the comparison and analysis discussed above are based on the amounts under the new segmentation (Same applies to NewsPicks business as discussed below).

(b) NewsPicks business

NewsPicks achieved a significant increase in the number of annual subscription users during the second quarter period ended June 30, 2020 ("2Q20"). In reaction to the significant increase in 2Q20, the growth rate of the number of paying users slowed down in FY21. However, because the effect of the slowdown was temporary, the growth rate has recovered its increasing trend since the third quarter period ended September 30, 2021 and subscription revenue has increased corresponding to the increase in number of paying users. Advertisement sales have been steadily expanding despite the slowdown in the growth rate due mainly to a significant change in the team structure. On the other hand, revenue from other businesses, which is generated from businesses other than subscription business and advertisement business, significantly decreased due to: the decrease in sales in relation to the closure of NewsPicks GINZA, a facility of NewsPicks business located in Japan, which was decided in 4Q21; and the significant decline in the number of publications of NewsPicks label books as compared to the strong sales recorded in 1Q21.

As a result, ARR of NewsPicks business at the end of 1Q22 amounted to ¥2,668million, up 4.0% year-over-year, and segment net sales for 1Q22 amounted to ¥1,409 million, down 11.3% year-over-year. NewsPicks business recorded segment profit of ¥140 million (down 49.8% year-over-year) and Segment EBITDA of ¥178 million (down 44.8% year-over-year).

(2) Financial Position (as of March 31, 2022)

(Total assets)

Total assets stood at ¥19,557 million, ¥754 million less than the previous year-end, due mainly to a combined effect of decrease in cash and deposits by ¥2,212 million and increase in investment securities by ¥551 million.

(Total liabilities)

Total liabilities stood at ¥9,231 million, ¥1,168 million less than the previous year-end, due mainly to a combined effect of increase in contract liabilities by ¥303 million, decrease in income taxes payable by ¥283 million, and decrease in long-term bank loans by ¥273 million.

(Equity)

Equity stood at ¥10,326 million, ¥414 million more than the previous year-end, due mainly to increase in retained earnings by ¥418 million resulting from net income attributable to owners of the parent for 1Q22.

(3) Cash Flows (from January 1, 2022 to March 31, 2022)

Cash and cash equivalents as of March 31, 2022 stood at ¥8,400 million, ¥2,212 million less than the previous year-end. Cash flows for 1Q22 are summarized as follows.

(Cash flows from operating activities)

Cash flows from operating activities for 1Q22 was an outflow of ¥390 million (inflow of ¥65 million for 1Q21). The major components of cash flows from operating activities were income before income taxes of ¥695 million, decrease in accrued bonuses of ¥248 million, and income taxes paid of ¥268 million.

(Cash flows from investing activities)

Cash flows from investing activities for 1Q22 was an outflow of ¥1,231 million (¥114 million for 1Q21). The major components of cash flows from investing activities were purchase of investment securities of ¥555 million and payments into lease and guarantee deposits of ¥527 million.

(Cash flows from financing activities)

Cash flows from financing activities for 1Q22 was an outflow of ¥632 million (¥126 million for 1Q21). The major components of cash flows from financing activities were repayments of long-term bank loans of ¥363 million and payments for distributions to partners of investment partnership of ¥239 million paid by UB Ventures, Inc., a consolidated subsidiary of the Company.

(4) Forecasts for the Fiscal Year Ending December 31, 2022

Annual Recurring Revenue, the key performance indicator of the Group, steadily expanded in 1Q22. EBITDA and other line items of profitability have also been robust. Operating income and ordinary income for 1Q22 have already exceeded the minimum amount of the respective forecast amounts for the entire year ending December 31, 2022. However, since the Company plans to implement marketing investments to restore growth of NewsPicks business starting from the second quarter period ending June 30, 2022, the Company has assumed that the forecasts for the year ending December 31, 2022 announced on February 9, 2022 do not need to be modified.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of Yen)

	As of December 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	10,613	8,400
Trade notes and accounts receivable and contract assets	1,147	1,353
Other current assets	586	618
Allowance for doubtful accounts	(9)	(8)
Total current assets	12,337	10,364
Non-current assets		
Property and equipment	271	237
Intangible assets		
Goodwill	718	694
Other	700	946
Total intangible assets	1,418	1,641
Investments and other assets		
Investment securities	2,605	3,157
Deferred tax assets	3,243	3,200
Other	382	912
Total investments and other assets	6,231	7,271
Total non-current assets	7,921	9,149
Deferred assets	52	43
Total assets	20,312	19,557

(Millions of Yen)

	As of December 31, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Trade accounts payable	484	426
Current portion of bonds	102	102
Current portion of long-term bank loans	1,218	1,128
Income taxes payable	381	97
Contract liabilities	3,451	3,755
Other current liabilities	1,909	1,272
Total current liabilities	7,548	6,782
Non-current liabilities		
Bonds	72	42
Long-term bank loans	2,622	2,349
Other	157	57
Total non-current liabilities	2,852	2,449
Total liabilities	10,400	9,231
Equity		
Shareholders' equity		
Common stock	7,188	7,189
Capital surplus	6,124	6,125
Accumulated deficit	(6,948)	(6,530)
Treasury stock	(0)	(0)
Total shareholders' equity	6,363	6,783
Accumulated other comprehensive income (loss)		
Unrealized (loss) on available-for-sale securities	26	28
Foreign currency translation adjustments	47	111
Total accumulated other comprehensive loss	74	139
Stock acquisition rights	9	9
Noncontrolling interests	3,464	3,394
Total equity	9,911	10,326
Total liabilities and equity	20,312	19,557

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

Quarterly Consolidated Statements of Income

(Millions of Yen)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2022
Net sales	3,877	4,305
Cost of sales	1,398	1,400
Gross profit	2,479	2,904
Selling, general and administrative expenses	1,752	2,386
Operating income	726	517
Non-operating income		
Interest income	1	0
Dividend income	—	4
Gain on sale of investment securities	—	195
Other	23	29
Total non-operating income	24	229
Non-operating expenses		
Interest expenses	4	5
Loss on valuation of investment securities	45	—
Investment partnership management fees	18	32
Other	17	9
Total non-operating expenses	86	47
Ordinary income	665	700
Extraordinary gains		
Other	—	14
Total extraordinary gains	—	14
Extraordinary losses		
Relocation costs	—	19
Total extraordinary losses	—	19
Income before income taxes	665	695
Income taxes - current	161	63
Income taxes - deferred	71	45
Total income taxes	233	108
Net income	431	586
Net income (loss) attributable to noncontrolling interests	(40)	168
Net income attributable to owners of the parent	472	418

Quarterly Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2022
Net income	431	586
Other comprehensive income		
Unrealized gain on available-for-sale securities	2	2
Foreign currency translation adjustments	27	63
Total other comprehensive income	30	66
Comprehensive income	462	652
Total comprehensive income (loss) attributable to:		
Owners of the parent	496	483
Noncontrolling interests	(33)	169

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of Yen)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2022
Cash flows from operating activities		
Income before income taxes	665	695
Depreciation and amortization	74	116
Amortization of goodwill	23	23
Gain on sale of investment securities	—	(195)
Decrease in accrued bonuses	(129)	(248)
Increase in trade notes and accounts receivable and contract assets	(481)	(198)
Decrease in other payables	(133)	(228)
Increase in contract liabilities	221	296
Other	(44)	(384)
Subtotal	195	(122)
Interest and dividends received	1	5
Interest paid	(4)	(5)
Income taxes paid	(126)	(268)
Cash flows from operating activities	65	(390)
Cash flows from investing activities		
Purchases of property and equipment	(22)	(106)
Purchases of intangible assets	(44)	(291)
Purchases of investment securities	(49)	(555)
Proceeds from sale of investment securities	—	250
Payments into lease and guarantee deposits	(0)	(527)
Other	1	0
Cash flows from investing activities	(114)	(1,231)
Cash flows from financing activities		
Repayments of long-term loans	(190)	(363)
Payments for redemption of bonds	(30)	(30)
Payments for distributions to partners of investment partnership	—	(239)
Other	94	1
Cash flows from financing activities	(126)	(632)
Foreign currency translation adjustments on cash and cash equivalents	29	41
Net decrease in cash and cash equivalents	(146)	(2,212)
Cash and cash equivalents, beginning of period	7,513	10,613
Cash and cash equivalents, end of period	7,366	8,400

(4) Notes to Quarterly Consolidated Financial Statements

(Going concern assumptions)
Not applicable

(Significant change in the amount of shareholders' equity)
Not applicable

(Changes in accounting policy)

(a) Application of Accounting Standard for Revenue Recognition

Effective from the beginning of 1Q22, the Company applied "Accounting Standard for Revenue Recognition" (Statement No. 29 issued by the Accounting Standards Board of Japan ("ASBJ") on March 31, 2020, hereinafter the "new revenue recognition standard"). Under the new revenue recognition standard, the Company recognizes revenue at the time when control over the promised goods or services is transferred to a customer at an amount expected to be received in exchange for the promised goods or services.

Under the new revenue recognition standard, initial application fees, initial installation support fees, initial setup fees and others in SaaS business and NewsPicks business (subscription business) that the Group receives at the time of contract, which had been fully recognized as revenue at the inception of the related service, are recognized over the service contract period. For transactions in NewsPicks business (advertisement business) in which the consolidated subsidiary acts as an agent, the Group previously recognized revenue at the gross amount of the consideration received from the customer. Under the new revenue recognition standard, the Group recognizes revenue at the net amount after offsetting the amount of payment to third parties.

The new revenue recognition standard is, in principle, retrospectively applied to the prior year (or period) consolidated financial statements. The accompanying consolidated financial statements for FY21 and quarterly consolidated financial statements for 1Q21 have been retrospectively restated in accordance with the new revenue recognition standard.

The impact of applying the new revenue recognition standard on the quarterly consolidated financial statements for 1Q21 was to decrease net sales by ¥87 million, cost of sales by ¥74 million, and operating income, ordinary income, and net income for the quarter by ¥12 million each. In addition, as a result of reflecting the cumulative effect, the accumulated deficit as of the beginning of FY21 was increased by ¥40 million.

Effective from 1Q22; (1) trade notes and accounts receivable, which had been presented in the current asset section in the prior year consolidated balance sheets, are included in and presented as trade notes and accounts receivable and contract assets; and (2) unearned revenue and advances received (included in other current liabilities), which had been presented separately, are included in contract liabilities.

(b) Application of Accounting Standard for Fair Value Measurement and Related Standards

Effective from the beginning of 1Q22, the Company applied "Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 issued on July 4, 2019, hereinafter the "new fair value measurement standard"). In accordance with the provisional treatment stipulated in Paragraph 19 of the new fair value measurement standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10 issued on July 4, 2019), the Company will prospectively apply new accounting policies prescribed in the new fair value measurement standard. The application of the new fair value measurement standard did not have any impact on the quarterly consolidated financial statements.

(Segment Information)

For the three months ended March 31, 2021 (from January 1, 2021 to March 31, 2021)

Net sales and profit (loss) by reportable segment

(Millions of Yen)

	Reportable Segments			Other (Note 1)	Total	Reconciliation (Note 2)	Consolidated (Note 3)
	SaaS Business	NewsPicks Business	Total				
Net Sales:							
Sales to external customers	2,296	1,581	3,877	—	3,877	—	3,877
Intersegment sales or transfers	0	8	8	—	8	(8)	—
Total	2,296	1,589	3,886	—	3,886	(8)	3,877
Segment profit (loss)	455	279	735	(7)	727	(0)	726

(Notes)

1. Other comprises businesses that are not included in the reportable segments such as a new business managed by the corporate division.

2. Reconciliations of segment profit or loss mainly consisted of ¥(0) million of eliminations of intersegment transactions.

3. Segment profit or loss equals to operating income or loss in the quarterly consolidated statement of income.

4. Segment EBITDA in each reportable segment is summarized as follows:

	SaaS Business	NewsPicks Business	Other	Reconciliation	Total
Segment profit (loss)	455	279	(7)	(0)	726
Depreciation and amortization	30	44	—	—	74
Amortization of goodwill	23	—	—	—	23
Stock compensation expenses	0	0	—	—	0
Segment EBITDA (Note 5)	509	323	(7)	(0)	825

5. Segment EBITDA is calculated by adding depreciation and amortization, amortization of goodwill, and stock compensation expenses to segment income (loss).

For the three months ended March 31, 2022 (from January 1, 2022 to March 31, 2022)

Net sales and profit (loss) by reportable segment

(Millions of Yen)

	Reportable Segments			Other (Note 1)	Total	Reconciliation	Consolidated (Note 2)
	SaaS Business	NewsPicks Business	Total				
Net Sales:							
Sales to external customers	2,904	1,400	4,305	—	4,305	—	4,305
Intersegment sales or transfers	1	8	9	—	9	(9)	—
Total	2,905	1,409	4,314	—	4,314	(9)	4,305
Segment profit (loss)	397	140	537	(19)	517	—	517

(Notes)

1. Other comprises businesses that are not included in the reportable segments such as a new business managed by the corporate division.

2. Segment profit or loss equals to operating income or loss in the quarterly consolidated statement of income.

3. Segment EBITDA in each reportable segment is summarized as follows:

	SaaS Business	NewsPicks Business	Other	Reconciliation	Total
Segment profit (loss)	397	140	(19)	—	517
Depreciation and amortization	78	38	—	—	116
Amortization of goodwill	23	—	—	—	23
Stock compensation expenses	—	—	—	—	—
Segment EBITDA (Note 4)	499	178	(19)	—	658

4. Segment EBITDA is calculated by adding depreciation and amortization, amortization of goodwill, and stock compensation expenses to segment income (loss).

Change in reportable segments and other information

(1) Change in Reportable Segments

Effective from 4Q21, as a result of reviewing the Group's performance management segmentation considering the current operating conditions, the former reportable segments, namely, SPEEDA business, NewsPicks business, and Other B2B business, have been reclassified into two reportable segments, namely, SaaS business and NewsPicks business.

(a) SPEEDA business and Other B2B business have been integrated into SaaS business because they are SaaS businesses that utilize common core assets and the Group plans to manage these businesses in a unified manner including cross-selling.
(b) AD/NP, which had been included in NewsPicks business, has been included in SaaS business considering the nature of the business because AD/NP is an enterprise-focused SaaS solution business that utilize the NewsPicks platform, which SPEEDA, FORCAS, and INITIAL also utilize.
(c) SPEEDA EDGE, which had been classified in "Other," has been reclassified into SaaS business from the perspective of management.

Segment information for 1Q21 has been restated in accordance with the current segmentation.

(2) Application of Accounting Standard for Revenue Recognition

As discussed above, effective from the beginning of 1Q22, the Company applied the new revenue recognition standard. Since the accounting policy of revenue recognition has been changed, the computation method of profit or loss of each segment has also been changed accordingly. The segment information for 1Q21 has been restated in accordance with the new computation method.

(3) Change in Measurement Method of Profitability of Reportable Segments

Effective from 1Q22, the Company changed its performance indicator. In relation to this change, the Company also changed the measurement method of segment profit. Under the new measurement method, company-wide expenses that are not directly attributable to services and business of each reportable segment (costs of being a listed company, audit fees, executive remuneration, and others), which had not been allocated to each reportable segment, are allocated to each reportable segment. The Company previously disclosed Direct EBITDA and segment EBITDA; however, effective from 1Q22, only segment EBITDA is disclosed because the Company has set segment EBITDA as a sole key performance indicator. The segment information for 1Q21 has been restated in accordance with the new measurement method.

(Revenue Recognition)

Disaggregation of revenue is as follows:

For the three months ended March 31, 2021 (from January 1, 2021 to March 31, 2021)

(Millions of Yen)

	Reportable Segments			Other (Note)	Total
	SaaS Business	NewsPicks Business	Subtotal		
SPEEDA	1,579	－	1,579	－	1,579
FORCAS	318	－	318	－	318
AD/NP	283	－	283	－	283
INITIAL	113	－	113	－	113
Subscription business	－	583	583	－	583
Advertisement business	－	729	729	－	729
Other businesses	－	268	268	－	268
Others	0	－	0	－	0
Revenue from contracts with customers	2,296	1,581	3,877	－	3,877
Sales to external customers	2,296	1,581	3,877	－	3,877

Note: Other comprises businesses that are not included in the reportable segments such as a new business managed by the corporate division.

For the three months ended March 31, 2022 (from January 1, 2022 to March 31, 2022)

(Millions of Yen)

	Reportable Segments			Other (Note)	Total
	SaaS Business	NewsPicks Business	Subtotal		
SPEEDA	1,944	－	1,944	－	1,944
FORCAS	454	－	454	－	454
AD/NP	328	－	328	－	328
INITIAL	163	－	163	－	163
Subscription business	－	611	611	－	611
Advertisement business	－	702	702	－	702
Other businesses	－	86	86	－	86
Others	13	－	13	－	13
Revenue from contracts with customers	2,904	1,400	4,305	－	4,305
Sales to external customers	2,904	1,400	4,305	－	4,305

Note: Other comprises businesses that are not included in the reportable segments such as a new business managed by the corporate division.

(Significant subsequent event)

(Issuance of new shares in accordance with the restricted stock unit plan)

The Company has decided to introduce a restricted stock unit ("RSU") plan (the "RSU Plan") for certain personnel (the "eligible person (s)") designated by the Company, including directors, officers, and certain employees of the Company or its group companies effective from the year ending December 31, 2022.

At its Board of Directors' meeting held on April 14, 2022, the Company resolved to issue new shares based on the RSU Plan. Details are as follows:

1. Outline of the Issuance

		1st RSU	2nd RSU	3rd RSU	4th RSU
(1)	Payment Date	July 8, 2022	October 11, 2022	January 11, 2023	April 10, 2023
(2)	Class of shares to be offered	Common stock of the Company	Common stock of the Company	Common stock of the Company	Common stock of the Company
	Number of shares (shares)	21,103	21,088	21,080	21,071
(3)	Issue price (yen)	¥1,071 per share			
(4)	Total amount of issue price (yen)	¥22,601,313	¥22,585,248	¥22,576,680	¥22,567,041
(5)	Number of recipients and number of shares to be allotted	3 directors: 2,061 shares 19 employees: 10,136 shares 1 director of a subsidiary: 502 shares 17 employees of subsidiaries: 8,404 shares	3 directors: 2,060 shares 19 employees: 10,127 shares 1 director of a subsidiary: 502 shares 17 employees of subsidiaries: 8,399 shares	3 directors: 2,058 shares 19 employees: 10,123 shares 1 director of a subsidiary: 502 shares 17 employees of subsidiaries: 8,397 shares	3 directors: 2,058 shares 19 employees: 10,118 shares 1 director of a subsidiary: 502 shares 17 employees of subsidiaries: 8,393 shares
(6)	Others	Each of the above items is subject to the conditions of the Registration Statement and the filing of the Supplemental Registration Statement in accordance with the Financial Instruments and Exchange Act.			

Note: A monetary compensation claim paid by the Company shall be allocated as a contributed asset and thereby allotting the Company's common stock.

2. Purpose and Reason for Issuance

The RSU Plan is a share-based remuneration plan under which a specific number of RSUs are provided to the eligible person in advance based on the degree of responsibility and other factors. The RSUs shall vest in stages and the corresponding number of the Company's common stock shall be allotted to the eligible person, provided that in principle the eligible person continuously serves as a director, executive officer, corporate auditor or employee of the Company or its group companies for a period of one year.

Under the RSU Plan, in principle, after the last date of the vesting period predetermined by the Company (June 30, 2022, September 30, 2022, December 31, 2022 and March 31, 2023 for the first through the fourth series, respectively), the Company will grant the eligible person a monetary compensation claim. The eligible person will receive an allotment of the Company's common stock by contributing the monetary compensation claim in full by the method of in-kind contribution. The number of common stock to be allotted is determined based on the number of units predetermined for each eligible person.

Subsequent to the resolution regarding the introduction of the RSU Plan made at the Board of Directors' meeting held on February 16, 2022, at the 14th Ordinary General Meeting of Shareholders held on March 25, 2022, it was approved that based on the RSU Plan the Company will pay (a) remuneration for directors (excluding directors who are Audit & Supervisory Committee members) not exceeding ¥250,000,000 per annum (including ¥40,000,000 per annum for outside directors and excluding the portion of employee's salary for directors who concurrently serve as employees) and (b) remuneration for directors who are Audit & Supervisory Committee members not exceeding ¥25,000,000 per annum.

The RSU Plan, together with the stock option plan described below, is designed to increase the number of executives and employees who have an entrepreneurial, managerial, and shareholder perspective, and to secure top-class talent by designing a system and compensation level that can be accepted both in Japan and overseas, as the Company aims to expand its business performance, globalization, and corporate value over the medium to long term. Another advantage is that share-based payments may help to improve the Company's financial soundness by replacing some of the compensation previously paid in cash. The Company believes that the terms and conditions of the RSU Plan are adequate because the compensation for each eligible person under the RSU Plan is necessary and reasonable considering the responsibilities of their positions.

The amount of monetary compensation claims to be paid to each eligible person shall be calculated by multiplying the number of shares to be delivered pursuant to the RSUs by the closing price of the Company's common stock on the Tokyo Stock Exchange as of the business day immediately preceding the date of resolution of the Company's Board of Directors regarding the issuance or disposal of the Company's common stock (April 13, 2022). Such price is the market price immediately prior to the date of the Board of Directors' resolution and is considered to be reasonable and not particularly advantageous.

(Issuance of stock acquisition rights as stock options)

The Company allotted stock subscription rights as stock options to certain personnel (the "allottee(s)") designated by the Company, including directors, officers, and certain employees of the Company or its group companies in accordance with the resolution made at the Board of Directors' meeting held on April 14, 2022.

Name	Stock Option #28
Resolution date	April 14, 2022
Grant date	April 30, 2022
Number of allottees	7 directors 20 employees 3 directors of subsidiaries 9 employees of subsidiaries
Number of stock acquisition rights	566,290
Class and number of shares to be issued upon exercise of stock acquisition rights	Common stock of the Company: 566,290 shares (Note 1)
Exercise price (yen)	¥1,028 per share (Note 2)
Exercise period	From April 30, 2022 to April 29, 2027
Issue price and amount to be allocated to share capital (yen)	Issue price: ¥1,238 per share Amount to be allocated to share capital: ¥619 per share
Terms and conditions to exercise stock acquisition rights	Note 3
Transfer of stock acquisition rights	Subject to approval of the Board of Directors
Treatment of stock acquisition rights in case of organizational restructuring	Note 5

(Notes)

1. The type of shares to be issued upon exercise of stock acquisition rights shall be common stock of the Company, and the number of shares to be issued upon exercise of each unit of stock acquisition right shall be one share. However, if, after the allotment date of stock acquisition rights, the Company splits its common stock into shares (including gratis allotment of shares of common stock of the Company. The same shall apply hereinafter with respect to stock splits), or in the event of a reverse stock split, the number of shares to be issued shall be adjusted in accordance with the following formula, and any fraction of less than one share resulting from the adjustment shall be rounded down to the nearest one share..

   Number of shares granted after adjustment = Number of shares granted before adjustment × Ratio of stock split or reverse stock split

   In addition to the above, if it becomes necessary to adjust the number of shares granted after the allotment date of stock acquisition rights, the Company may appropriately adjust the number of shares granted to a reasonable extent.

2. After the allotment date of stock acquisition rights, the Company may adjust the exercise price to a reasonable extent in cases where adjustment of the exercise price is necessary. Such events include: (1) a stock split or reverse stock split of the Company's common stock, (2) issuance of new shares or disposal of treasury stock at a price below the market price (excluding (a) sale of treasury stock pursuant to the provisions of Article 194 of the Companies Act (request for sale of shares constituting less than one trading unit by shareholders holding shares constituting less than one trading unit) and (b) conversion of securities into shares of common stock or stock acquisition rights of the Company (including convertible rights of convertible bonds)), and (3) gratis allotment of other class shares to common shareholders or distribution of shares of other companies to common shareholders.

3. Conditions for exercise of stock acquisition rights

   (1) The holder of the stock acquisition rights may not exercise the stock acquisition rights beyond the number calculated by the following formula: (a) The amount of remuneration for the stock acquisition right holder by way of stock options specified by the Company divided by (b) the fair value of the stock acquisition rights calculated by using the Black Scholes model and other techniques as of the allotment date of the stock acquisition rights.

   (2) Stock acquisition rights shall vest in stages; one-fourth of the total number of stock acquisition rights allotted to the recipient shall vest each time when a period of three months has passed from the date of allotment. The holders of stock acquisition rights may exercise only vested stock acquisition rights. If the holder of the stock acquisition rights loses the position as a director, executive officer, corporate auditor (Audit & Supervisory Board member) or employee of the Company or the group companies, the stock acquisition rights that have not vested at the time of losing the position shall no longer vest.

(3) If the exercise of the stock acquisition rights would cause the total number of outstanding shares of the Company to exceed the total number of authorized shares of the Company at the relevant time, such stock acquisition rights may not be exercised.

(4) No less-than-one-unit stock acquisition right may be exercised.

(5) Terms and conditions other than above shall be set forth in the stock acquisition rights allotment agreement to be entered into by the Company and the stock acquisition right holders.

4. Reasons and conditions where the Company may acquire the stock acquisition rights

(1) In the event that a General Meeting of Shareholders approves (or, if it is not required, the Board of Directors resolves) a merger agreement under which the Company is dissolved, a company split agreement or plan under which the Company is split, or a share exchange agreement or share transfer plan under which the Company becomes a wholly owned subsidiary, the Company may acquire all of the stock acquisition rights without consideration on a date separately determined by the Board of Directors of the Company.

(2) If a stock acquisition right becomes unexercisable in accordance with the provisions set forth in 3 above before exercise, the Company may acquire such stock acquisition rights from the holder without consideration on a date separately determined by the Board of Directors of the Company.

(3) If a stock acquisition rights holder ceases to be a director, executive officer, corporate auditor (Audit & Supervisory Board member) or employee of the Company or its group companies, the Company may acquire the non-vested stock acquisition rights held by such stock acquisition right holder without consideration on a date separately determined by the Board of Directors of the Company.

5. In the case the Company is merged (limited to cases where the Company is dissolved), conducts an absorption-type split or incorporation-type split (limited to cases where the Company becomes a split company), or conducts share exchange or share transfer (limited to cases where the Company becomes a wholly owned subsidiary) (collectively, "reorganization"), the Company shall deliver stock acquisition rights of the reorganized company ("succeeded stock acquisition rights") as stipulated in Article 236, Paragraph 1, Item 8 (a) to (e) of the Companies Act to the stock acquisition right holders immediately before such reorganization takes effect. However, the foregoing shall be limited to cases where it is indicated in an absorption-type merger agreement, incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that stock acquisition rights of the reorganized company are to be granted in accordance with the following conditions.

(1) Number of succeeded stock acquisition rights
One succeeded stock acquisition right is to be delivered in place of one original stock acquisition right.

(2) Class and number of shares to be acquired upon exercise of the succeeded stock acquisition rights
The class of shares to be acquired by the succeeded stock acquisition rights shall be common stock of the reorganized company. The number of shares for the succeeded stock acquisition rights shall be determined by taking into consideration the condition of the reorganization and by making an appropriate adjustment to the number of shares (adjusted number of shares if any adjustment has been made) obtained in Note 1 above. Fractions of less than one arising from the adjustment shall be rounded down.

(3) Amount of assets to be contributed upon exercise of the succeeded stock acquisition rights
The amount of assets to be contributed to exercise the succeeded stock acquisition rights shall be the amount obtained by multiplying the post-reorganization exercise price obtained by adjusting the exercise price in Note 2 above in consideration of the conditions of the reorganization by the number of granted shares of the reorganized company determined by (2) above.

(4) Exercise period of the succeeded stock acquisition rights
The succeeded stock acquisition rights can be exercised from the starting date specified in the table above or the effective date of the reorganization, whichever comes later, until the expiration date of the period stipulated in the table above.

(5) Matters concerning the increase of share capital and additional paid-in capital by issuance of shares upon exercise of the succeeded stock acquisition rights
To be determined in accordance with the table above.

(6) Limitation on acquisition of the succeeded stock acquisition rights by transfer
Acquisition of the succeeded stock acquisition rights by transfer shall require the approval by resolution of the Board of Directors of the reorganized company.

(7) Conditions for exercise and acquisition clause of succeeded stock acquisition rights
Conditions for exercise and acquisition clause of succeeded stock acquisition rights shall be determined in accordance with Note 3 and Note 4 above.