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Consolidated Financial Results for the Six Months Ended June 30, 2022 [Japanese GAAP]

August 4, 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

Contact: Daisuke Chiba Executive Officer, Chief Financial Officer

Phone: +81-3-4533-1999

Scheduled date of filing quarterly securities report: August 4, 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: August 4, 2022

(Amounts less than one million yen are rounded down)

1. Consolidated financial results as of and for the six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)

(1) Consolidated operating results

(% indicates changes from the previous corresponding period)

	Net sales		EBITDA*		Operating income		Ordinary income (loss)		Income attributable to owners of the parent	
Six months ended:	¥Million	%	¥Million	%	¥Million	%	¥Million	%	¥Million	%
June 30, 2022	8,650	13.1	654	(53.1)	342	(71.4)	519	(53.0)	149	(79.2)
June 30, 2021	7,649	―	1,396	―	1,194	―	1,104	―	721	―

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

(Notes)

Comprehensive income: Six months ended June 30, 2022: ¥ 427 million [(39.8) %]
Six months ended June 30, 2021: ¥ 710 million [― %]

	Basic net income per share	Diluted net income per share
Six months ended:	¥	¥
June 30, 2022	4.06	3.97
June 30, 2021	19.69	19.16

(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 six months ended July 30, 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 six months ended June 30, 2021 are not presented.

(2) Consolidated financial position

	Total assets	Equity	Capital-to-asset ratio*
	¥ Million	¥ Million	%
As of June 30, 2022	19,907	9,907	34.1
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 June 30, 2022: ¥ 6,783 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	—	0.00			
Fiscal year ending December 31, 2022 (Projected)			—	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) Restatements: Not applicable

(4) Number of issued shares of common stock
(a) Number of common stock issued, including treasury stock, as of:
June 30, 2022 36,903,806 shares
December 31, 2021 36,750,126 shares
(b) Number of treasury stock as of:
June 30, 2022 304 shares
December 31, 2021 258 shares
(c) Average number of common stock for the six months ended:
June 30, 2022 36,830,008 shares
June 30, 2021 36,633,335 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 June 30, 2022)

Revenue in the IT service industry in Japan has been increasing 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 curb IT investments, are now increasingly adopting software. As a result, the SaaS market in Japan is expected to grow to approximately ¥1.4 trillion in size by 2025 (source: 2021 New Market of Software Business, Fuji Chimera Research Institute, Inc.). Personal smartphone ownership rate reached 74.3% in 2021, up by 5.0 percentage points year-over-year (source: Communications Usage Trend Survey, Ministry of Internal Affairs and Communications, Japan [May 27, 2022]). 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 of 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 in Japan, which started around March 2020, the number of people infected temporarily dropped significantly because of the restraint on traffic based on the state of emergency and the progress of vaccination; however, people are becoming more cautious under the seventh wave of the pandemic due to the spread of the new variants. Along with the situation in Ukraine and the rapid depreciation of the yen, the economic condition in Japan is still difficult to predict.

Amid such growing uncertainties, the Group recognizes that the needs and expectations for its services, such as introduction of cloud services and high-quality media content, will increase even further.

Under such circumstances, the Group's businesses were continuously expanding during the six months ended June 30, 2022 ("1H22"), and as a result, the Group recorded net sales of ¥8,650 million (up 13.1% year-over-year). In terms of profitability, due to: (1) investments in growth of SaaS products that continue to show rapid growth; and (2) proactive marketing investments mainly in TV commercials aiming to regain the growth rate of subscription revenue generated from NewsPicks business in the following years, the Group recorded EBITDA of ¥654 million (down 53.1% year-over-year), operating income of ¥342 million (down 71.4% year-over-year), and ordinary income of ¥519 million (down 53.0% year-over-year). Net income attributable to owners of the parent was ¥149 million (down 79.2% year-over-year). This was primarily due to income taxes of ¥172 million.

Effective from the beginning of the three months ended March 31, 2022 ("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 six months ended June 30, 2021 ("1H21") 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 for 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), are allocated to each reportable segment. The Company previously disclosed Direct EBITDA and segment EBITDA; however, effective from 1Q22, only segment EBITDA is disclosed as the Company’s 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). To that end, the Group believes that 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 Group’s multiple products, the main one is currently SPEEDA, offered since the Group’s 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 subsided. The average churn rate for the most recent 12 months at the end of 1H22 improved by 0.1% to 0.8% as compared to that at the end of 1Q22 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, thereby contributing 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 recorded a high growth rate.

Based on the above, ARR of SaaS business at the end of 1H22 amounted to ¥11,037 million and the growth rate steadily rose to 27.6% year-over-year. Segment sales amounted to ¥5,894 million, up 26.6% year-over-year. In terms of profitability, SPEEDA, the Group's main product, has achieved a high rate of profitability while making investments in growth of SPEEDA EXPERT RESEARCH, and INITIAL, a startup information platform, also contributed to earnings by maintaining an EBITDA margin of over 20%. On the other hand, FORCAS, FORCAS Sales, AD/NP and other products are currently in the red because they are now in the phase of proactive investments aiming for high growth. As a result, SaaS business recorded segment profit of ¥582 million (down 30.7% year-over-year) and Segment EBITDA of ¥810 million (down 15.0% 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. Subsequently, NewsPicks showed a recovery trend from the slowdown; however, in 2Q22, the number of paying users decreased as compared to the end of 1Q22 due to cancellation of subscriptions by users acquired in 2Q20. Advertisement sales have been continuously expanding although it takes time to regain the growth rate. The Company assumes that advertisement sales will start to contribute to earnings in or after the third quarter period ended September 30, 2022 ("3Q22"), despite the fact that the shortfall of resources to create advertorial content that the Company experienced in 1Q22 has been resolved. 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 following factors: 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 1H21.

In 2Q22, the Company proactively made marketing investments such as trials of TV commercials in order to regain the growth rate of the subscription business in the following years. The results of the trials have clarified what is highly effective for acquiring free members in terms of length of program, program slot, and commercial design. The Company will continue to utilize TV commercials from 3Q22 onward, focusing on successful patterns identified through the trials that enable the Company to lower customer acquisition costs to the targeted level.

As a result, ARR of NewsPicks business at the end of 1H22 amounted to ¥2,582 million, up 4.0% year-over-year, and segment net sales for 1H22 amounted to ¥2,772 million, down 7.9% year-over-year. NewsPicks business recorded a segment loss of ¥201 million (segment profit of ¥375 million for 1H21) and Segment EBITDA of ¥(117) million (¥464 million for 1H21).

(2) Financial Position (as of June 30, 2022)

(Total assets)

Total assets stood at ¥19,907 million, ¥404 million down from the previous year-end, due mainly to a combined effect of decrease in cash and deposits by ¥1,936 million and increase in investment securities by ¥790 million.

(Total liabilities)

Total liabilities stood at ¥9,999 million, ¥400 million down from the previous year-end, due mainly to a combined effect of increase in contract liabilities by ¥1,384 million, decrease in income taxes payable by ¥219 million, and decrease in long-term bank loans by ¥523 million.

(Equity)

Equity stood at ¥9,907 million, ¥3 million down from the previous year-end, due mainly to a combined effect of increase in retained earnings by ¥149 million resulting from net income attributable to owners of the parent for 1H22 and decrease in noncontrolling interests by ¥378 million attributable to distributions to external investors paid by a fund managed by UB Ventures, Inc., a consolidated subsidiary of the Company.

(3) Cash Flows (from January 1, 2022 to June 30, 2022)

Cash and cash equivalents as of June 30, 2022 stood at ¥8,677 million, ¥1,936 million less than the previous year-end. Cash flows for 1H22 are summarized as follows.

(Cash flows from operating activities)

Cash flows from operating activities for 1H22 was an inflow of ¥924 million (¥2,057 million for 1H21). The major components of cash flows from operating activities were income before income taxes of ¥444 million, increase in contract liabilities of ¥1,369 million, decrease in accrued bonuses of ¥233 million, and income taxes paid of ¥270 million.

(Cash flows from investing activities)

Cash flows from investing activities for 1H22 was an outflow of ¥1,804 million (¥571 million for 1H21). The major components of cash flows from investing activities were purchase of investment securities of ¥722 million, purchase of intangible assets of ¥571 million, and payments into lease and guarantee deposits of ¥527 million.

(Cash flows from financing activities)

Cash flows from financing activities for 1H22 was an outflow of ¥1,160 million (an inflow of ¥171 million for 1H21). The major components of cash flows from financing activities were repayments of long-term bank loans of ¥648 million and payments for distributions to partners of investment partnership of ¥469 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 1H22. EBITDA and other line items of profitability have also been robust. Operating income and ordinary income for 1H22 have already exceeded the minimum amount of the respective forecast amounts for the entire year ending December 31, 2022. However, since the Company continues to make marketing investments to regain the growth of NewsPicks business, the Company has decided to maintain its forecasts for the year ending December 31, 2022 announced on February 9, 2022.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of Yen)

	As of December 31, 2021	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	10,613	8,677
Trade notes and accounts receivable and contract assets	1,147	948
Other current assets	586	694
Allowance for doubtful accounts	(9)	(6)
Total current assets	12,337	10,313
Non-current assets		
Property and equipment	271	235
Intangible assets		
Goodwill	718	671
Other	700	1,175
Total intangible assets	1,418	1,846
Investments and other assets		
Investment securities	2,605	3,396
Deferred tax assets	3,243	3,171
Other	382	908
Total investments and other assets	6,231	7,475
Total non-current assets	7,921	9,558
Deferred assets	52	35
Total assets	20,312	19,907

(Millions of Yen)

	As of December 31, 2021	As of June 30, 2022
Liabilities		
Current liabilities		
Trade accounts payable	484	344
Current portion of bonds	102	102
Current portion of long-term bank loans	1,218	1,093
Income taxes payable	381	161
Contract liabilities	3,451	4,836
Other current liabilities	1,909	1,277
Total current liabilities	7,548	7,814
Non-current liabilities		
Bonds	72	21
Long-term bank loans	2,622	2,099
Other	157	64
Total non-current liabilities	2,852	2,184
Total liabilities	10,400	9,999
Equity		
Shareholders' equity		
Common stock	7,188	7,193
Capital surplus	6,124	6,129
Accumulated deficit	(6,948)	(6,798)
Treasury stock	(0)	(0)
Total shareholders' equity	6,363	6,522
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	26	29
Foreign currency translation adjustments	47	231
Total accumulated other comprehensive loss	74	260
Stock acquisition rights	9	38
Noncontrolling interests	3,464	3,085
Total equity	9,911	9,907
Total liabilities and equity	20,312	19,907

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

Quarterly Consolidated Statements of Income

(Millions of Yen)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2022
Net sales	7,649	8,650
Cost of sales	2,787	2,994
Gross profit	4,862	5,656
Selling, general and administrative expenses	3,667	5,314
Operating income	1,194	342
Non-operating income		
Interest income	2	0
Dividend income	—	4
Gain on sale of investment securities	—	195
Other	31	74
Total non-operating income	34	274
Non-operating expenses		
Interest expenses	9	10
Equity in losses of associated companies	—	0
Loss on valuation of investment securities	45	—
Investment partnership management fees	38	66
Other	31	19
Total non-operating expenses	124	97
Ordinary income	1,104	519
Extraordinary gains		
Other	—	15
Total extraordinary gains	—	15
Extraordinary losses		
Relocation costs	—	89
Total extraordinary losses	—	89
Income before income taxes	1,104	444
Income taxes - current	340	99
Income taxes - deferred	83	73
Total income taxes	424	172
Net income	679	272
Net income (loss) attributable to noncontrolling interests	(41)	122
Net income attributable to owners of the parent	721	149

Quarterly Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2022
Net income	679	272
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	2	(28)
Foreign currency translation adjustments	28	183
Total other comprehensive income	30	155
Comprehensive income	710	427
Total comprehensive income (loss) attributable to:		
Owners of the parent	745	336
Noncontrolling interests	(34)	91

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of Yen)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2022
Cash flows from operating activities		
Income before income taxes	1,104	444
Depreciation and amortization	156	213
Amortization of goodwill	46	46
Stock compensation expenses	(0)	51
Gain on sale of investment securities	—	(195)
Decrease (increase) in accrued bonuses	1	(233)
(Increase) decrease in trade notes and accounts receivable and contract assets	(75)	219
Decrease in accounts payable	(25)	(166)
Increase in contract liabilities	1,052	1,369
Other	(289)	(552)
Subtotal	1,970	1,198
Interest and dividends received	2	5
Interest paid	(9)	(10)
Income taxes paid	(132)	(270)
Income taxes refunded	226	1
Cash flows from operating activities	2,057	924
Cash flows from investing activities		
Purchases of property and equipment	(79)	(145)
Purchases of intangible assets	(139)	(571)
Purchases of investment securities	(352)	(722)
Proceeds from sale of investment securities	—	250
Payments into lease and guarantee deposits	(0)	(527)
Other	1	(87)
Cash flows from investing activities	(571)	(1,804)
Cash flows from financing activities		
Repayments of long-term loans	(380)	(648)
Payments for redemption of bonds	(51)	(51)
Proceeds from partners of investment partnership	585	—
Payments for distributions to partners of investment partnership	—	(469)
Other	18	8
Cash flows from financing activities	171	(1,160)
Foreign currency translation adjustments on cash and cash equivalents	31	105
Net increase (decrease) in cash and cash equivalents	1,689	(1,936)
Cash and cash equivalents, beginning of period	7,513	10,613
Cash and cash equivalents, end of period	9,202	8,677

(3) 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 1H21 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 1H21 was to decrease net sales by ¥214 million, cost of sales by ¥177 million, and operating income, ordinary income, and net income for the period by ¥36 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.

In addition, as to the consolidated statements of cash flows; (1) increase in trade notes and accounts receivable, which had been presented in the cash flows from operating activities in the prior year consolidated statements of cash flows, is presented as increase in trade notes and accounts receivable and contract assets; and (2) increase in unearned revenue and increase in advances received, which had been separately presented in the cash flows from operating activities in the prior year consolidated statements of cash flows, are presented as increase 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 six months ended June 30, 2021 (January 1, 2021 to June 30, 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	4,654	2,994	7,649	—	7,649	—	7,649
Intersegment sales or transfers	2	17	20	—	20	(20)	—
Total	4,657	3,012	7,669	—	7,669	(20)	7,649
Segment profit (loss)	840	375	1,215	(20)	1,194	0	1,194

(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)	840	375	(20)	0	1,194
Depreciation and amortization	66	89	—	—	156
Amortization of goodwill	46	—	—	—	46
Stock compensation expenses	(0)	(0)	—	—	(0)
Segment EBITDA (Note 5)	952	464	(20)	0	1,396

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

For the six months ended June 30, 2022 (January 1, 2022 to June 30, 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	5,892	2,757	8,650	—	8,650	—	8,650
Intersegment sales or transfers	1	14	16	—	16	(16)	—
Total	5,894	2,772	8,667	—	8,667	(16)	8,650
Segment profit (loss)	582	(201)	380	(38)	342	—	342

(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)	582	(201)	(38)	—	342
Depreciation and amortization	144	69	—	—	213
Amortization of goodwill	46	—	—	—	46
Stock compensation expenses	36	15	—	—	51
Segment EBITDA (Note 4)	810	(117)	(38)	—	654

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 1H21 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 1H21 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 1H21 has been restated in accordance with the new measurement method.

(Revenue Recognition)

Disaggregation of revenue is as follows:

For the six months ended June 30, 2021 (January 1, 2021 to June 30, 2021)

(Millions of Yen)

	Reportable Segments			Other (Note)	Total
	SaaS Business	NewsPicks Business	Subtotal		
SPEEDA	3,216	—	3,216	—	3,216
FORCAS	673	—	673	—	673
AD/NP	524	—	524	—	524
INITIAL	237	—	237	—	237
Subscription business	—	1,162	1,162	—	1,162
Advertisement business	—	1,332	1,332	—	1,332
Other businesses	—	499	499	—	499
Others	3	—	3	—	3
Revenue from contracts with customers	4,654	2,994	7,649	—	7,649
Sales to external customers	4,654	2,994	7,649	—	7,649

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

For the six months ended June 30, 2022 (January 1, 2022 to June 30, 2022)

(Millions of Yen)

	Reportable Segments			Other (Note)	Total
	SaaS Business	NewsPicks Business	Subtotal		
SPEEDA	3,912	—	3,912	—	3,912
FORCAS	933	—	933	—	933
AD/NP	671	—	671	—	671
INITIAL	343	—	343	—	343
Subscription business	—	1,222	1,222	—	1,222
Advertisement business	—	1,365	1,365	—	1,365
Other businesses	—	169	169	—	169
Others	31	—	31	—	31
Revenue from contracts with customers	5,892	2,757	8,650	—	8,650
Sales to external customers	5,892	2,757	8,650	—	8,650

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)

Approval of Business Adaptation Plan

On July 27, 2022, the Company's business adaptation plan (business adaptation plan for growth and development) has been approved for a special tax treatment by the Ministry of Economy, Trade and Industry.

Under the Act for Partially Amending the Industrial Competitiveness Enhancement Act and Other Related Acts, a special tax treatment is offered to companies that are facing difficult business conditions under the COVID pandemic and taking bold measures to reform their business, including restructuring/reorganization, towards the post-COVID era. In order to qualify for the treatment, companies must obtain approval from the Minister of the Ministry of Economy, Trade and Industry by submitting a plan (business adaptation plan) that includes a detailed investment plan for restructuring/reorganization. Once approved, the maximum deductible amount of net operating losses carried forward is raised from the current 50% up to 100%, within the range of the amount of investment, for up to five fiscal years.

As a result, recoverable amounts of deferred tax assets of the Company are expected to be changed. The impact of this change is currently under the process of evaluation.