Note: This document is a translation of a part of the original Japanese version and provided for reference purposes only. In the event of any discrepancy between the Japanese original version and this English translation, the Japanese original version shall prevail.

Consolidated Financial Results for the Nine Months Ended September 30, 2022 [Japanese GAAP]

November 9, 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: https://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: November 9, 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: November 9, 2022

(Amounts less than one million yen are rounded down)

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

(1) Consolidated operating results

(% indicates changes from the previous corresponding period)

	Net sales		EBITDA*		Operating income		Ordinary income		Income attributable to owners of the parent	
Nine months ended:	¥Million	%	¥Million	%	¥Million	%	¥Million	%	¥Million	%
September 30, 2022	13,124	14.8	795	(54.1)	249	(82.4)	403	(68.7)	709	49.3
September 30, 2021	11,430	−	1,733	−	1,414	−	1,288	−	475	−

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

(Notes)

Comprehensive income: Nine months ended September 30, 2022: ¥ 1,194 million [161.4 %]
Nine months ended September 30, 2021: ¥ 456 million [− %]

	Basic net income per share	Diluted net income per share
Nine months ended:	¥	¥
September 30, 2022	19.24	18.84
September 30, 2021	12.97	12.33

(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 nine months ended September 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 nine months ended September 30, 2021 are not presented.

(2) Consolidated financial position

	Total assets	Equity	Capital-to-asset ratio*
	¥ Million	¥ Million	%
As of September 30, 2022	20,827	10,738	35.8
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 September 30, 2022: ¥ 7,457 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 (Actual)	–	0.00	–		
Fiscal year ending December 31, 2022 (Projected)				0.00	0.00

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

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

As stated in the "Notice Regarding a Revision of Consolidated Earnings Forecast for FY2022" announced on November 9, 2022 (today), the forecasts announced on February 9, 2022 have been revised as in the table below.

(% indicates changes from the previous corresponding period)

	Net sales		EBITDA		Operating income		Ordinary income		Profit attributable to owners of the parent		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	18,200	15.7	1,000	(46.6)	300	(79.0)	400	(74.1)	500	(12.4)	13.55

(Note)
Revisions to the most recent announced forecasts: See above

(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:
September 30, 2022 37,067,757 shares
December 31, 2021 36,750,126 shares
(b) Number of treasury stock as of:
September 30, 2022 304 shares
December 31, 2021 258 shares
(c) Average number of common stock for the nine months ended:
September 30, 2022 36,891,694 shares
September 30, 2021 36,652,254 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 September 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]).

On the other hand, although the COVID-19 pandemic that started around March 2020 remains unpredictable, the traffic of people is shifting from online to offline, as more people are going out and offline events are regaining popularity. However, the economic situation is still difficult to predict, with the rising risk of recession due to the situation in Ukraine and the interest rate hikes mainly in the U.S., as well as the sharp depreciation of the yen and rising prices in Japan.

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 nine months ended September 30, 2022 ("9M22"), and as a result, the Group recorded net sales of ¥13,124 million (up 14.8% 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 made in the second quarter period ended June 30, 2022 ("2Q22") aiming to regain the growth rate of subscription revenue generated from NewsPicks business in the following years, the Group recorded EBITDA of ¥795 million (down 54.1% year-over-year), operating income of ¥249 million (down 82.4% year-over-year), and ordinary income of ¥403 million (down 68.7% year-over-year). Net income attributable to owners of the parent was ¥709 million (up 49.3% year-over-year). This was primarily due to income taxes of ¥ (505) 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 nine months ended September 30, 2021 ("9M21") 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 has also 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 9M22 was 0.8% 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 9M22 amounted to ¥11,765 million and the growth rate steadily rose to 28.8% year-over-year. Segment sales amounted to ¥9,134 million, up 27.4% year-over-year. In terms of profitability, SPEEDA, the Group's main product, has continued to achieve 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 ¥756 million (down 32.7% year-over-year) and segment EBITDA of ¥1,154 million (down 11.7% 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. In the third quarter period ended September 30, 2022 ("3Q22"), however, the change in the number of paying users showed a turnaround to be a net increase because the impact of the aforementioned reaction was limited to 2Q22 only and certain paid video content was successful in 3Q22. As to advertisement sales, the shortfall of resources to create advertorial content that the Company experienced in 1Q22 has been resolved. Despite the fact that some customers are showing restraints of marketing costs due to the rapid depreciation of the yen and the rising prices, advertisement sales are continuing to expand stably. On the other hand, publishing sales decreased due to the following factors: (1) 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; (2) the lack of hit titles as compared to that a year earlier; and (3) the decline in the number of publications due to a shortage of editorial staff. As a result, revenue from other businesses, which is generated from businesses other than subscription business and advertisement business, significantly decreased.

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. Through the trials, the Company has identified successful patterns that enable it to lower customer acquisition costs to the targeted level. The Company's TV commercial campaigns focusing on the successful patterns are being aired in the Kanto and Kansai area for the period from October 15, 2022 to November 13, 2022.

As a result, ARR of NewsPicks business at the end of 9M22 amounted to ¥2,657 million, up 3.4% year-over-year, and segment net sales for 9M22 amounted to ¥4,017 million, down 6.3% year-over-year. NewsPicks business recorded a segment loss of ¥454 million (segment profit of ¥374 million a year earlier) and segment EBITDA of ¥ (305) million (¥510 million a year earlier).

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

(Total assets)

Total assets stood at ¥20,827 million, ¥515 million up from the previous year-end, due mainly to a combined effect of decrease in cash and deposits by ¥3,662 million and increase in: (1) property and equipment by ¥1,278 million, (2) investment securities by ¥1,119 million, and (3) deferred tax assets by ¥606 million.

(Total liabilities)

Total liabilities stood at ¥10,088 million, ¥311 million down from the previous year-end, due mainly to a combined effect of increase in contract liabilities by ¥1,368 million and decrease in: (1) income taxes payable by ¥339 million, and (2) long-term bank loans by ¥373 million.

(Equity)

Equity stood at ¥10,738 million, ¥827 million up from the previous year-end, due mainly to increase in retained earnings by ¥709 million resulting from net income attributable to owners of the parent for 9M22.

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

Cash and cash equivalents as of September 30, 2022 stood at ¥6,950 million, ¥3,662 million down from the previous year-end. Cash flows for 9M22 are summarized as follows.

(Cash flows from operating activities)

Cash flows from operating activities for 9M22 was an inflow of ¥288 million (¥2,132 million a year earlier). The major components of cash flows from operating activities were income before income taxes of ¥321 million, increase in contract liabilities of ¥1,348 million, decrease in accrued bonuses of ¥234 million, decrease in consumption taxes payable of ¥250 million, and income taxes paid of ¥463 million.

(Cash flows from investing activities)

Cash flows from investing activities for 9M22 was an outflow of ¥3,129 million (¥1,103 million a year earlier). The major components of cash flows from investing activities were purchases of property and equipment of ¥1,279 million, purchases of intangible assets of ¥899 million, and purchases of investment securities of ¥852 million,

(Cash flows from financing activities)

Cash flows from financing activities for 9M22 was an outflow of ¥964 million (an inflow of ¥652 million a year earlier). The major components of cash flows from financing activities were repayments of long-term bank loans of ¥933 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

The Company has revised the financial forecasts for the year ending December 31, 2022 from the figures previously announced on February 9, 2022. For details, please refer to the “Notice Regarding a Revision of Consolidated Earnings Forecast for FY2022” announced on November 9, 2022 (today).

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of Yen)

	As of December 31, 2021	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	10,613	6,950
Trade notes and accounts receivable and contract assets	1,147	973
Other current assets	586	1,014
Allowance for doubtful accounts	(9)	(8)
Total current assets	12,337	8,929
Non-current assets		
Property and equipment	271	1,550
Intangible assets		
Goodwill	718	647
Other	700	1,433
Total intangible assets	1,418	2,081
Investments and other assets		
Investment securities	2,605	3,724
Deferred tax assets	3,243	3,849
Other	382	665
Total investments and other assets	6,231	8,240
Total non-current assets	7,921	11,871
Deferred assets	52	26
Total assets	20,312	20,827

(Millions of Yen)

	As of December 31, 2021	As of September 30, 2022
Liabilities		
Current liabilities		
Trade accounts payable	484	383
Current portion of bonds	102	72
Current portion of long-term bank loans	1,218	1,158
Income taxes payable	381	41
Contract liabilities	3,451	4,819
Other current liabilities	1,909	1,003
Total current liabilities	7,548	7,478
Non-current liabilities		
Bonds	72	21
Long-term bank loans	2,622	2,249
Asset retirement obligations	88	267
Other	69	71
Total non-current liabilities	2,852	2,610
Total liabilities	10,400	10,088
Equity		
Shareholders' equity		
Common stock	7,188	7,210
Capital surplus	6,124	6,146
Accumulated deficit	(6,948)	(6,238)
Treasury stock	(0)	(0)
Total shareholders' equity	6,363	7,117
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	26	44
Foreign currency translation adjustments	47	295
Total accumulated other comprehensive loss	74	340
Stock acquisition rights	9	67
Noncontrolling interests	3,464	3,214
Total equity	9,911	10,738
Total liabilities and equity	20,312	20,827

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

Quarterly Consolidated Statements of Income

(Millions of Yen)

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2022
Net sales	11,430	13,124
Cost of sales	4,288	4,644
Gross profit	7,141	8,479
Selling, general and administrative expenses	5,727	8,230
Operating income	1,414	249
Non-operating income		
Interest income	4	0
Dividend income	—	4
Equity in earnings of associated companies	—	1
Gain on sale of investment securities	—	213
Other	39	76
Total non-operating income	43	296
Non-operating expenses		
Interest expenses	14	15
Loss on valuation of investment securities	45	—
Investment partnership management fees	65	97
Other	45	28
Total non-operating expenses	169	141
Ordinary income	1,288	403
Extraordinary gains		
Other	—	16
Total extraordinary gains	—	16
Extraordinary losses		
Impairment losses	289	—
Relocation costs	—	98
Provision for loss on facility closure	210	—
Total extraordinary losses	499	98
Income before income taxes	788	321
Income taxes - current	384	97
Income taxes - deferred	(12)	(602)
Total income taxes	372	(505)
Net income	415	826
Net income (loss) attributable to noncontrolling interests	(59)	117
Net income attributable to owners of the parent	475	709

Quarterly Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2022
Net income	415	826
Other comprehensive income		
Unrealized gain on available-for-sale securities	2	119
Foreign currency translation adjustments	38	248
Total other comprehensive income	41	367
Comprehensive income	456	1,194
Total comprehensive income (loss) attributable to:		
Owners of the parent	508	975
Noncontrolling interests	(51)	219

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of Yen)

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2022
Cash flows from operating activities		
Income before income taxes	788	321
Depreciation and amortization	249	372
Impairment losses	289	—
Amortization of goodwill	70	70
Stock compensation expenses	(0)	103
Gain on sale of investment securities	—	(213)
Decrease in accrued bonuses	(104)	(234)
Increase (decrease) in provision for loss on facility closure	210	(161)
(Increase) decrease in trade notes and accounts receivable and contract assets	(13)	191
Increase in prepaid expenses	(103)	(221)
Decrease in other payables	(168)	(202)
Decrease in consumption taxes payable	(102)	(250)
Increase in contract liabilities	957	1,348
Other	91	(362)
Subtotal	2,163	759
Interest and dividends received	3	6
Interest paid	(14)	(15)
Income taxes paid	(246)	(463)
Income taxes refunded	226	1
Cash flows from operating activities	2,132	288
Cash flows from investing activities		
Purchases of property and equipment	(106)	(1,279)
Purchases of intangible assets	(261)	(899)
Purchases of investment securities	(807)	(852)
Proceeds from sale of investment securities	—	270
Payments into lease and guarantee deposits	(0)	(528)
Collections on lease and guarantee deposits	1	248
Other	70	(89)
Cash flows from investing activities	(1,103)	(3,129)
Cash flows from financing activities		
Proceeds from long-term loans	300	500
Repayments of long-term loans	(826)	(933)
Payments for redemption of bonds	(81)	(81)
Proceeds from partners of investment partnership	1,235	—
Payments for distributions to partners of investment partnership	(0)	(469)
Other	25	20
Cash flows from financing activities	652	(964)
Foreign currency translation adjustments on cash and cash equivalents	50	143
Net increase (decrease) in cash and cash equivalents	1,731	(3,662)
Cash and cash equivalents, beginning of period	7,513	10,613
Cash and cash equivalents, end of period	9,245	6,950

(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 9M21 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 9M21 was to decrease net sales by ¥308 million, cost of sales by ¥275 million, and operating income, ordinary income, and net income for the period by ¥33 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 nine months ended September 30, 2021 (January 1, 2021 to September 30, 2021)

1) 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	7,166	4,263	11,430	—	11,430	—	11,430
Intersegment sales or transfers	3	21	25	—	25	(25)	—
Total	7,170	4,285	11,456	—	11,456	(25)	11,430
Segment profit (loss)	1,125	374	1,499	(84)	1,414	0	1,414

(Notes)

1. Other comprises businesses that are not included in the reportable segments such as new businesses 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)	1,125	374	(84)	0	1,414
Depreciation and amortization	112	136	—	—	249
Amortization of goodwill	70	—	—	—	70
Stock compensation expenses	(0)	(0)	—	—	(0)
Segment EBITDA (Note 5)	1,307	510	(84)	0	1,733

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

2) Information on impairment losses of non-current assets and goodwill by each reporting segment

(Significant impairment loss on non-current assets)

During the nine months period, the Group recorded ¥289 million of impairment loss on non-current assets in relation to the decision to close NewsPicks GINZA, a facility of NewsPicks business located in Japan.

For the nine months ended September 30, 2022 (from January 1, 2022 to September 30, 2022)

1) 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	9,131	3,992	13,124	—	13,124	—	13,124
Intersegment sales or transfers	3	25	28	—	28	(28)	—
Total	9,134	4,017	13,152	—	13,152	(28)	13,124
Segment profit (loss)	756	(454)	302	(52)	249	—	249

(Notes)

1. Other comprises businesses that are not included in the reportable segments such as new businesses 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)	756	(454)	(52)	—	249
Depreciation and amortization	253	119	—	—	372
Amortization of goodwill	70	—	—	—	70
Stock compensation expenses	73	29	—	—	103
Segment EBITDA (Note 4)	1,154	(305)	(52)	—	795

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

2) 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 9M21 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 9M21 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 9M21 has been restated in accordance with the new measurement method.

(Revenue Recognition)

Disaggregation of revenue is as follows:

For the nine months ended September 30, 2021 (from January 1, 2021 to September 30, 2021)

(Millions of Yen)

	Reportable Segments			Other (Note)	Total
	SaaS Business	NewsPicks Business	Subtotal		
SPEEDA	4,920	—	4,920	—	4,920
FORCAS	1,060	—	1,060	—	1,060
AD/NP	804	—	804	—	804
INITIAL	371	—	371	—	371
Subscription business	—	1,742	1,742	—	1,742
Advertisement business	—	1,842	1,842	—	1,842
Other businesses	—	678	678	—	678
Others	9	—	9	—	9
Revenue from contracts with customers	7,166	4,263	11,430	—	11,430
Sales to external customers	7,166	4,263	11,430	—	11,430

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

For the nine months ended September 30, 2022 (from January 1, 2022 to September 30, 2022)

(Millions of Yen)

	Reportable Segments			Other (Note)	Total
	SaaS Business	NewsPicks Business	Subtotal		
SPEEDA	5,987	—	5,987	—	5,987
FORCAS	1,456	—	1,456	—	1,456
AD/NP	1,089	—	1,089	—	1,089
INITIAL	543	—	543	—	543
Subscription business	—	1,833	1,833	—	1,833
Advertisement business	—	1,928	1,928	—	1,928
Other businesses	—	230	230	—	230
Others	55	—	55	—	55
Revenue from contracts with customers	9,131	3,992	13,124	—	13,124
Sales to external customers	9,131	3,992	13,124	—	13,124

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

(Significant Subsequent Event)

Tender Offer for Shares, etc. of the Company by THE SHAPER Co.

At a board of directors meeting held on November 9, 2022, the Company passed a resolution representing its opinion in support of a tender offer (the "Tender Offer") by THE SHAPER Co. for the Company's common shares (the "Shares") and recommending that all shareholders of the Company tender their Shares in the Tender Offer.

The resolution of the board of directors was passed on the premise that the Shares would be delisted as a result of the Tender Offer and a series of subsequent procedures.

For details, please refer to the "Announcement of Opinion Supporting the Tender Offer by THE SHAPER Co. and Recommendation of Tender" released on November 9, 2022.