November 9, 2022

ExaWizards Inc. (TSE 4259)
Consolidated Financial Results for the Six Months Ended September 30, 2022 (Unaudited)

Stock exchange listing: Tokyo Stock Exchange
Code number: 4259
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Consolidated Operating Results

(Amounts are rounded down to the nearest million yen)

(In millions of yen, unless otherwise stated)	Six Months Ended September 30		% Change
	2021	2022	
Revenue	1,971	2,622	133.0
Operating profit	(329)	(287)	-
Ordinary profit	(336)	(285)	-
Net profit attributable to owners of parent	(388)	(272)	-
Comprehensive income	(397)	(284)	-
Basic EPS (yen)	(5.15)	(3.36)	-
Diluted EPS (yen)	-	-	-

(Note)Diluted EPS is not stated because, although potential shares exist, basic loss per share was recorded.

Consolidated Financial Position

(In millions of yen, unless otherwise stated)	As of March 31, 2022	As of September 30, 2022
Total assets	7,865	7,601
Net assets	6,633	6,413
Equity ratio	83.8%	83.9%
Equity	6,589	6,381

Dividends

(In yen, unless otherwise stated)	FY2021	FY2022	FY2022 (Forecast)
At the end of Q1	-	-	
At the end of Q2	0	0	
At the end of Q3	-		-
At the end of Q4	0		0
Total	0		0

(Note)Revisions to the forecasts of cash dividends most recently announced: No

Consolidated Financial Results Forecasts for FY2022

(In millions of yen, unless otherwise stated)	FY2022 (Forecast)	year over year % change
Revenue	7,000	45.5
	～6,500	～35.1
Operating profit	50	-
	～1	
Ordinary profit	50	-
	～1	
Net profit attributable to owners of parent	50	-
	～1	
Basic EPS (yen)	0.63	
	～0.01	

(Note)Revisions to the Consolidated Financial Results Forecasts most recently announced: No

Changes in Significant Subsidiaries Resulting from Change in Scope of Consolidation

None.

Application of special accounting treatments for preparing the quarterly consolidated financial statements

There has been no change.

Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to revision of accounting standards: No
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: No
4) Retrospective restatement: No

Number of Issued Shares - Common Stock

	As of March 31, 2022	As of September 30, 2022
Number of issued shares including treasury stock	79,928,400	81,481,200
Number of treasury stock	-	-

	Six Months Ended September 30, 2021	Six Months Ended September 30, 2022
Average number of shares during the period	75,308,000	81,127,317

(Note)On August 28, 2021, the Company conducted a 100-for-1 stock split. “Number of issued shares” and “Average number of shares during the period” were calculated assuming that the stock split was conducted at the beginning of the fiscal year ending March 31, 2021.

Supplementary Information

- Consolidated Financial Results are exempt from audit conducted by certified public accountants or audit firms.
- Previously, the amounts of accounts and other items presented in the Company's quarterly consolidated financial statements were stated in thousands of yen, but effective from the first quarter of the current consolidated fiscal year, the Company has changed to stating such amounts in millions of yen. In order to facilitate comparison, the figures for the previous consolidated fiscal year and the six months ended September 30, 2021 are also presented in millions of yen.
- A full set of materials is posted on https://exawizards.com/en/ir
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1. Qualitative Information Regarding Results for the Period

(1) Explanation of Operating Results

Overall

In the AI Platform segment, we aim to discover industrial and social issues in various industries and to innovate them through the continuous resolution of client's issues, based on our mission of "Solving social issues through Artificial Intelligence for future generations". In the AI Products segment, we provide a wide range of customers with AI software that can be immediately used in business with minimal additional adjustments, with the aim of solving social issues.

In the field of Digital Transformation (DX) and adoption of AI applications, where our group is developing the business, there is a growing appetite for corporate investment to promote DX, and the business environment continues to be favorable for both the AI Platform segment and the AI Products segment, with strong expectations for new orders from client companies.

Consolidated Results of Operations

Revenue:

Net sales for the consolidated fiscal year totaled ¥2,622 million (+33.0% year-on-year). As a result of working with several major clients on DX support with AI utilization and innovation through AI projects, the number of customers increased.

COGS, Gross Profit:

Cost of goods sold for the consolidated fiscal year totaled ¥1,131 million (+44.4% year-on-year). This was mainly due to an increase in personnel and software depreciation.
As a result of the above, gross profit for the consolidated fiscal year was ¥1,490 million (+25.5% year-on-year), and the gross profit margin was 56.8%.

SG&A, Operating Profit:

Selling, general and administrative expenses for the consolidated fiscal year totaled ¥1,777 million (+17.2% year-on-year). The main elements were personnel expenses.
As a result of the above, operating loss for the consolidated fiscal year was ¥287 million (operating loss of ¥329 million in the same period of the previous year).

Non-Operating Income and Loss, Ordinary Profit:

Non-operating income for the consolidated fiscal year totaled ¥2 million. Non-operating expenses totaled ¥0 million.
As a result of the above, ordinary loss for the consolidated fiscal year was ¥285 million (ordinary loss of ¥336 million in the same period of the previous year).

Extraordinary Income and Loss, Profit attributable to owners of Parent:

Loss before income taxes and minority interests for the consolidated fiscal year totaled ¥272 million (loss before income taxes and minority interest of ¥382 million in the same period of the previous year). An extraordinary income of ¥13 million was recorded in the first quarter of the current fiscal year as a gain on the transfer of a part of the business belonging to the AI Products segment.
Net loss attributable to owners of the parent for the current fiscal year was ¥272 million (net loss attributable to owners of the parent of ¥388 million in the same period of the previous year) due to the recording of ¥11 million in total income taxes. Effective from the current fiscal year, Japanese Group Relief System was introduced, and taxable income and losses among subsidiaries are aggregated for national tax calculations.

Results of Operations by Segment

AI Platform:

In the consolidated fiscal year, we worked with several major clients on creating innovations through AI projects that utilize image and data analysis technologies utilizing machine learning, deep learning, and statistics. Strong corporate demand for AI-based DX support also provided a boost, and the number of customers increased.
As a result, net sales totaled ¥2,301 million (+32.6% year-on-year), gross profit totaled ¥1,382 million (+22.4% year-on-year), gross profit margin was 60.1%, operating income totaled ¥ 187 million (-10.7% year-on-year), and the ratio of revenue from long term clients to net sales was 75.2%. (Note 1)

AI Products:

In the consolidated fiscal year, in addition to expanding sales of existing products, we also worked to develop new services based on the knowledge gained through the AI Platform segment.
In the DX AI Products group, the number of companies introducing "exaBase DX Assessment & Learning" for assessing and training corporate DX personnel mainly increased.
In the Social AI Products group, sales of "CareWiz Toruto" and "CareWiz Hanasuto" expanded through collaboration with their respective partner companies.
On the other hand, personnel costs and other expenses increased due to an increase in the number of employees in line with organizational expansion and upfront investments in product development.
As a result, net sales were ¥320 million (+36.0% year-on-year), gross profit was ¥107 million (+83.8% year-on-year), gross profit margin was 33.6%, and operating loss was ¥474 million (operating loss of ¥539 million in the same period of the previous year).

(Note 1) Continuous revenue from the clients that ExaWizards maintains its contract for consecutive 4 quarters and more (excluding its revenue from exaBase Community)

(2) Explanation of Financial Position

Assets

Total assets at the end of the second quarter ended September 30, 2022, amounted to ¥7,601 million, ¥ 264 million decrease since the end of the previous consolidated fiscal year. This was mainly due to decreases of ¥336 million and ¥92 million in cash and deposits and other current assets, respectively, while intangible assets increased of ¥214 million mainly due to an increase in software.

Liabilities

Total liabilities at the end of the second quarter ended September 30, 2022, amounted to ¥1,187 million, ¥44 million decrease since the end of the previous consolidated fiscal year. This was mainly due to decreases of ¥28 million in accrued income tax payable and ¥47 million in other, respectively, while accrued expenses increased of ¥45 million due to payroll-related expenses associated with an increase in the number of employees.

Net assets

Total net assets at the end of the second quarter ended September 30, 2022, amounted to ¥6,413 million, ¥219 million decrease since the end of the previous consolidated fiscal year. This was mainly due to decrease of ¥272 million in net loss attributable to owners of the parent for the current fiscal year.

(3) Explanation of Cash Flows

Overall

Cash and cash equivalents at the end of the second quarter ended September 30, 2022, amounted to ¥5,201 million, ¥336 million decrease since the end of the previous consolidated fiscal year. The status of each cash flow and its factors are as follows.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥42 million (net cash used in operating activities amounted to ¥120 million in the same period of the previous year). This was mainly due to positive factors such as depreciation and amortization ¥171 million, subsidies received ¥95 million and a decrease in trade receivable ¥73 million, while a negative factor such as loss before income taxes and minority interests for the consolidated fiscal year of ¥272 million.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥423 million (¥473 million in the same period of the previous year). This was mainly due to ¥398 million used for the purchase of intangible fixed assets.

Cash flow from financing activities

Net cash provided by financing activities amounted to ¥44 million (¥49 million in the same period of the previous year). This was mainly due to proceeds of ¥64 million from the issuance of shares resulting from exercise of share acquisition rights.

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

The forecasts of consolidated financial results for the fiscal year ending March 31, 2023, have not changed from the forecast announced on May 11, 2022.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(In millions of yen)	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	5,537	5,201
Accounts receivable – trade and contract assets	914	839
Other	183	90
Total current assets	6,636	6,131
Non-current assets		
Property, plant and equipment	126	150
Intangible assets		
Goodwill	212	186
Software	594	835
Other	0	0
Total intangible assets	807	1,021
Investments and other assets	295	297
Total non-current assets	1,229	1,469
Total assets	7,865	7,601

(In millions of yen)	As of March 31, 2022	As of September 30, 2022
Liabilities and net assets		
Liabilities		
Current liabilities		
Current portion of bonds payable	6	3
Current portion of long-term borrowings	29	22
Accounts payable - other	212	219
Accrued expenses	254	299
Income tax payables	71	43
Other	250	202
Total current liabilities	824	790
Non-current liabilities		
Long-term borrowings	310	300
Retirement benefit liability	58	57
Asset retirement obligations	39	39
Total non-current liabilities	408	397
Total liabilities	1,232	1,187
Net assets		
Shareholders' equity		
Share capital	2,274	2,306
Capital surplus	5,059	4,456
Retained earnings	(744)	(381)
Total shareholders' equity	6,589	6,381
Share acquisition rights	3	3
Non-controlling interests	40	29
Total net assets	6,633	6,413
Total liabilities and net assets	7,865	7,601

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(In millions of yen)	Six Months Ended September 30 2021	2022
Net sales	1,971	2,622
Cost of sales	783	1,131
Gross profit	1,187	1,490
Selling, general and administrative expenses	1,517	1,777
Operating profit (loss)	(329)	(287)
Non-operating income		
Interest and dividend income	0	0
Subsidy income	1	1
Other	0	0
Total non-operating income	2	2
Non-operating expenses		
Interest expenses	3	0
Foreign exchange losses	3	0
Other	2	-
Total non-operating expenses	9	0
Ordinary profit (loss)	(336)	(285)
Extraordinary income		
Gain on sale of businesses	-	13
Total extraordinary income	-	13
Extraordinary losses		
Loss on sales of fixed assets	2	-
Impairment losses	3	-
Loss on liquidation of subsidiaries and associates	39	-
Total extraordinary losses	45	-
Profit (loss) before income taxes	(382)	(272)
Income taxes – current	6	13
Income taxes – deferred	5	(1)
Total income taxes	11	11
Profit (loss)	(393)	(284)
Profit (loss) attributable to non-controlling interests	(5)	(11)
Profit (loss) attributable to owners of parent	(388)	(272)

Consolidated Statements of Comprehensive Income

(In millions of yen)	Six Months Ended September 30 2021	2022
Profit (loss)	(393)	(284)
Other comprehensive income		
Foreign currency translation adjustment	(4)	-
Total other comprehensive income	(4)	-
Comprehensive income	(397)	(284)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(392)	(272)
Comprehensive income attributable to non-controlling interests	(5)	(11)

(3) Quarterly Consolidated Statement of Cash Flows

(In millions of yen)	Six Months Ended September 30	
	2021	2022
Cash flows from operating activities		
Profit (loss) before income taxes	(382)	(272)
Depreciation	104	171
Amortization of goodwill	21	25
Loss on retirement of property, plant and equipment	2	-
Impairment losses	3	-
Loss (gain) on business transfer	-	(13)
Interest and dividend income	(0)	(0)
Interest expenses	3	0
Foreign exchange losses (gains)	3	-
Subsidy income	(1)	(1)
Decrease (increase) in trade receivables	(11)	73
Decrease (increase) in other current assets	3	(1)
Increase (decrease) in accounts payable - other, and accrued Expenses	63	51
Increase (decrease) in income taxes payable - factor based tax	-	(22)
Increase (decrease) in other current liabilities	9	(49)
Increase (decrease) in retirement benefit liability	(9)	(0)
Other, net	0	4
Subtotal	(187)	(33)
Interest and dividends received	0	0
Interest paid	(3)	(0)
Subsidies received	69	95
Income taxes paid	(6)	(19)
Income taxes refund	7	-
Net cash provided by (used in) operating activities	(120)	42
Cash flows from investing activities		
Purchase of property, plant and equipment	(60)	(37)
Proceeds from sale of property, plant and equipment	3	-
Purchase of intangible assets	(174)	(398)
Purchase of shares of subsidiaries and associates	(32)	-
Purchase of shares of subsidiaries resulting in change in scope of Consolidation	(230)	-
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	(23)	-
Proceeds from business transfer		16
Purchase of insurance funds	(11)	(5)
Proceeds from cancellation of insurance funds	4	-
Payments of leasehold and guarantee deposits	(67)	-
Proceeds from refund of leasehold and guarantee deposits	120	1
Net cash provided by (used in) investing activities	(473)	(423)
Cash flows from financing activities		
Repayments of long-term borrowings	(28)	(16)
Redemption of bonds	(3)	(3)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	-	64
Proceeds from share issuance to non-controlling shareholders	78	-
Proceeds from issuance of share acquisition rights	3	-
Net cash provided by (used in) financing activities	49	44
Effect of exchange rate change on cash and cash equivalents	(0)	-
Net increase (decrease) in cash and cash equivalents	(544)	(336)
Cash and cash equivalents at beginning of period	2,337	5,537
Cash and cash equivalents at end of period	1,793	5,201

(4) Notes to the consolidated financial statements

Going Concern Assumption

Not applicable.

Notes on significant changes in the amount of shareholders' equity

At the Ordinary General Meeting of Shareholders held on June 28, 2022, the Company resolved to reduce the amount of capital reserve and to appropriate retained earnings. And the resolution became effective as of July 8, 2022. As a result, capital reserve decreased by ¥1,735 million during the consolidated fiscal year, and the entire amount of the decrease was transferred to other capital surplus. In addition, the Company compensated for the deficit by transferring ¥635 million from other capital surplus to retained earnings, subject to the condition that the reduction in the amount of capital reserve takes effect.
Share capital and capital surplus increased by ¥32 million and ¥32 million, respectively, due to proceed from issuance of shares resulting from exercise of share.
As a result, share capital, capital surplus, and retained earnings at the second quarter ended September 30 amounted to ¥2,306 million, ¥4,456 million, and -¥381 million, respectively.

Segment Information

I. For the Six Months Ended September 30, 2021

1. Information on the amount of sales and profit (loss) for each reportable segment

(In millions of yen)	AI Platform	AI Products	Total
Net sales			
Revenue from contracts with customers	1,735	235	1,971
Net sales to external customers	1,735	235	1,971
Intersegment revenue or transfers	-	-	-
Total	1,735	235	1,971
Segment profit (loss)	209	(539)	(329)

(Note) Total segment profit (loss) agrees with operating profit (loss) of quarterly consolidated statements of income.

2. Information on impairment losses on fixed assets or goodwill for each reportable segment

Significant Impairment Loss on Fixed Assets

Not applicable.

Significant changes in the amount of goodwill

In the AI Platform business segment, goodwill was recognized in the first quarter of the previous consolidated fiscal year due to the acquisition of shares of Xware Corporation and its inclusion in the scope of consolidation. The amount of increase in goodwill due to this event was ¥238 million in the first half of the previous consolidated fiscal year.

Significant gain on negative goodwill

Not applicable.

II. For the Six Months Ended September 30, 2022

1. Information on the amount of sales and profit (loss) for each reportable segment

(In millions of yen)	AI Platform	AI Products	Total
Net sales			
Revenue from contracts with customers	2,301	320	2,622
Net sales to external customers	2,301	320	2,622
Intersegment revenue or transfers	-	-	-
Total	2,301	320	2,622
Segment profit (loss)	187	(474)	(287)

(Note) Total segment profit (loss) agrees with operating profit (loss) of quarterly consolidated statements of income.

2. Information on impairment losses on fixed assets or goodwill for each reportable segment

Significant Impairment Loss on Fixed Assets

Not applicable.

Significant changes in the amount of goodwill

Not applicable.

Significant gain on negative goodwill

Not applicable.