November 14, 2023

ExaWizards Inc. (TSE 4259)
Consolidated Financial Results for the Six Months Ended September 30, 2023 (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)	Three Months Ended September 30		% Change
	2022	2023	
Revenue	2,622	3,388	29.2
Operating profit	(287)	(534)	-
Ordinary profit	(285)	(542)	-
Net profit attributable to owners of parent	(272)	(768)	-
Comprehensive income	(284)	(785)	-
Basic EPS (yen)	(3.36)	(9.46)	-
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, 2023	As of September 30, 2023
Total assets	7,939	9,757
Net assets	6,618	4,725
Equity ratio	82.4%	47.7%

Dividends

(In yen, unless otherwise stated)	FY2022	FY2023	FY2023 (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

Consolidated Financial Results Forecasts for FY2023

(In millions of yen, unless otherwise stated)	FY2023 (Forecast)	year over year % change
Revenue	8,500	52.0
Operating profit	(290)	-
EBITDA	600	

(Note)Revisions to the Consolidated Financial Results Forecasts most recently announced: Yes

Changes in Significant Subsidiaries Resulting from Change in Scope of Consolidation: Yes

New: 1 company (Company name: STADIUM Co., Ltd.)

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, 2023	As of September 30, 2023
Number of issued shares including treasury stock	83,383,800	83,977,900
Number of treasury stock	100,300	3,111,700

	Six Months Ended September 30, 2022	Six Months Ended June 30, 2023
Average number of shares during the period	81,127,317	81,263,017

Supplementary Information

- Consolidated Financial Results are exempt from audit conducted by certified public accountants or audit firms.
- A full set of materials is posted on https://exawizards.com/en/ir
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Table of Contents

1. Qualitative Information Regarding Results for the Period

(1) Explanation of Operating Results 4
(2) Explanation of Financial Position 5
(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements 5

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheets 6
(2) Consolidated Statements of Income and Comprehensive Income 7
Consolidated Statements of Income 7
Consolidated Statements of Comprehensive Income 7
(3) Quarterly Consolidated Statement of Cash Flows 8
(4) Notes to the consolidated financial statements 9
Going Concern Assumption 9
Notes on significant changes in the amount of shareholders' equity 9
Change of scope of consolidation or scope of equity method 9
Segment information 9
Business Combinations 11

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.

Consolidated Results of Operations

Revenue:

Net sales for the period totaled 3,388 million yen (+29.2% year-on-year). This was mainly due to the start of consolidation of the results of STADIUM, which became a subsidiary, from the second quarter of this consolidated fiscal year, and an increase in the number of installations of our services in the AI product business.

COGS, Gross Profit:

Cost of sales for the period under review totaled 1,622 million yen (+43.3% YoY). This was mainly due to an increase in personnel expenses and depreciation of software, which are included in cost of sales.
As a result, gross profit amounted to 1,766 million yen (up 18.5% year-on-year) and gross profit margin was 52.1%.

SG&A, Operating Profit:

Selling, general and administrative (SG&A) expenses were 2,301 million yen (+29.4% YoY) in the first half of the current fiscal year. This was mainly due to an increase in personnel and other expenses, which are SG&A expenses.
As a result, operating loss amounted to 534 million yen for the first half of the current fiscal year (compared with an operating loss of 287 million yen in the same period of the previous year).

Non-Operating Income and Loss, Ordinary Profit:

Non-operating income for the period totaled 2 million yen. Non-operating expenses totaled 10 million yen.
As a result, ordinary loss amounted to 542 million yen for the first half of the current fiscal year (ordinary loss of 285 million yen for the same period last year).

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

Income (loss) before income taxes and minority interests for the first half of the current fiscal year totaled 787 million yen (272 million yen loss before income taxes and minority interests for the same period last year).
An extraordinary loss of 203 million yen was recorded as a total of impairment loss as described below. In addition, 42 million yen was recorded in the first quarter as a loss on liquidation of subsidiaries and affiliates due to the liquidation of the Company's overseas research and development bases.
In addition, a net loss attributable to owners of the parent of 768 million yen (compared to a net loss attributable to owners of the parent of 272 million yen in the same period of the previous year) was recorded for the first half of the current fiscal year, due to the positive total of 1 million yen in income taxes.

Impairment Loss

In the second quarter of the current fiscal year, the Company recorded an impairment loss of 164 million yen on software assets and tools, furniture and fixtures owned by a consolidated subsidiary in the AI product business.
In addition, the Company recorded an impairment loss of 38 million yen for certain software assets held by the Company, which have become idle assets.

Income taxes-deferred

Income taxes-deferred amounted to -19 million yen in the first half of the current fiscal year due to the reversal of deferred tax liabilities of 10 million yen for the depreciation of customer-related assets and 9 million yen for the reversal of asset retirement obligations associated with office relocation.

Results of Operations by Segment

AI Platform:

During the period under review, the Company continued to work with a number of major companies to create innovations through AI projects. Strong corporate demand for AI and DX support was also a driver, resulting in an increase in the number of companies with which we do business. On the other hand, subcontracting costs related to project operation increased.
As a result, net sales were 2,392 million yen (+3.9% YoY), gross profit was 1,298 million yen (-6.3% YoY), gross margin was 54.3%, and operating income was 599 million yen (-10.4% YoY). The ratio of sales to long-term customers (see note below) was 69.7%.

(Note) Continuous revenue from the clients that ExaWizards maintains its contract for consecutive 4 quarters and more.

AI Products:

In the DX AI product group, the number of companies that have adopted "exaBase DX Assessment & Learning," which helps companies find and train DX human resources, increased. In the Social AI product group, sales of "CareWiz Toruto" expanded through collaboration with partner companies.
In this context, recruiting and advertising expenses for hiring to meet these demands increased. In addition, personnel and other expenses in

cost of sales increased due to an increase in personnel associated with organizational expansion and upfront investment in product development.
As a result, net sales were 500 million yen (+56.1% year-on-year), gross profit was 230 million yen (+121.8% year-on-year), gross profit margin was 46.1%, and operating loss was 224 million yen (187 million yen operating loss in the previous year).

Other Services:
This segment consists of services and other activities that do not currently fall under the AI Platform and AI Products segment business model. Included in this segment are the operations and results of STADIUM Co., Ltd. which became a subsidiary during the first quarter of the current fiscal year.
In the first half of the period under review, the digital solution sales business of STADIUM performed solidly, particularly in terms of projects for which orders have already been received. In addition, a cooperative framework for expanding sales of services in the Company's AI Product business made progress.
As a result, net sales were 495 million yen, gross profit was 245 million yen, gross margin was 49.6%, and operating income was 26 million yen.

(2) Explanation of Financial Position

Assets
Total assets amounted to 9,757 million yen at the end of the second quarter, up 1,817 million yen from the end of the previous fiscal year. This was mainly due to 1,817 million yen increase in customer-related assets resulting from the allocation of acquisition costs associated with the acquisition of shares of STADIUM.

Liabilities
Total liabilities amounted to 5,031 million yen at the end of the second quarter, up 3,710 million yen from the end of the previous fiscal year. This was mainly due to a 2,400 million yen increase in long-term debt resulting from the acquisition of shares of STADIUM, and a 466 million yen increase in deferred tax liabilities resulting from a review of the initial allocation of acquisition costs.

Net assets
Total net assets at the end of the second quarter amounted to 4,725 million yen, down 1,893 million yen from the end of the previous fiscal year. This was mainly due to the acquisition of treasury stock amounting to 1,169 million yen and net loss attributable to owners of the parent amounting to 768 million yen.

(3) Explanation of Financial Position

Overall
Cash and cash equivalents at the end of the second quarter decreased 1,136 million yen from the end of the previous fiscal year to 4,094 million yen. The status of each cash flow and its factors are as follows.

Cash flows from operating activities
Net cash used in operating activities totaled 96 million yen (42 million yen provided in the same period of the previous year). This was mainly due to increasing factors such as depreciation expense of 237 million yen, impairment loss of 203 million yen, and increase in accounts payable and accrued expenses of 196 million yen, but net loss before taxes and minority interests of 787 million yen.

Cash Flows from Investing Activities
Net cash used in investing activities totaled 2,521 million yen (423 million yen in the same period of the previous year). This was mainly due to expenditures of 1,870 million yen for the purchase of investments in subsidiaries resulting in changes in the scope of consolidation and 428 million yen for the purchase of intangible fixed assets.

Cash flow from financing activities
Net cash provided by financing activities amounted to 1,480 million yen (44 million yen in the same period of the previous year). This was mainly due to an increase of 2,700 million yen in proceeds from long-term loans payable, while there was a decrease of 1,165 million yen in purchase of treasury stock.

(4) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statement

The earnings forecast for the fiscal year ending March 31, 2024 remains unchanged from the consolidated earnings forecast disclosed on August 14, 2023.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(In millions of yen)	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	5,231	4,094
Accounts receivable – trade and contract assets	1,032	1,146
Other	108	172
Total current assets	6,372	5,413
Non-current assets		
Property, plant and equipment	165	184
Intangible assets		
Goodwill	160	921
Customer-related assets	-	1,817
Software	954	933
Other	0	0
Total intangible assets	1,114	3,672
Investments and other assets		
Investment securities	-	181
Other	287	305
Total investments and other assets	287	486
Total non-current assets	1,567	4,343
Total assets	7,939	9,757

(In millions of yen)	As of March 31, 2023	As of September 30, 2023
Liabilities and net assets		
Liabilities		
Current liabilities		
Current portion of long-term borrowings	10	300
Accounts payable - other	225	509
Accrued expenses	304	428
Income tax payables	48	41
Contract liabilities	110	287
Provision for bonuses	15	-
Other	200	226
Total current liabilities	914	1,792
Non-current liabilities		
Long-term borrowings	300	2,700
Retirement benefit liability	66	60
Asset retirement obligations	39	12
Deferred tax liabilities	-	466
Total non-current liabilities	406	3,238
Total liabilities	1,321	5,031
Net assets		
Shareholders' equity		
Share capital	2,337	2,361
Capital surplus	4,487	4,515
Retained earnings	(249)	(1,018)
Treasury stock	(34)	(1,203)
Total shareholders' equity	6,540	4,655
Share acquisition rights	3	11
Non-controlling interests	75	58
Total net assets	6,618	4,725
Total liabilities and net assets	7,939	9,757

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(In millions of yen)	Six Months Ended September 30 2022	2023
Net sales	2,622	3,388
Cost of sales	1,131	1,622
Gross profit	1,490	1,766
Selling, general and administrative expenses	1,777	2,301
Operating profit (loss)	(287)	(534)
Non-operating income		
Interest and dividend income	0	0
Subsidy income	1	0
Other	0	1
Total non-operating income	2	2
Non-operating expenses		
Interest expenses	0	5
Foreign exchange losses	0	0
Other	-	4
Total non-operating expenses	0	10
Ordinary profit (loss)	(285)	(542)
Extraordinary income		
Gain on sales of fixed assets	-	0
Gain on sale of businesses	13	-
Other	-	0
Total extraordinary income	13	0
Extraordinary losses		
Loss on disposal of fixed assets	-	0
Impairment loss	-	203
Loss on liquidation of subsidiaries and associates	-	42
Total extraordinary losses	-	245
Profit (loss) before income taxes	(272)	(787)
Income taxes – current	13	17
Income taxes – deferred	(1)	(19)
Total income taxes	11	(1)
Profit (loss)	(284)	(785)
Profit (loss) attributable to non-controlling interests	(11)	(16)
Profit (loss) attributable to owners of parent	(272)	(768)

Consolidated Statements of Comprehensive Income

(In millions of yen)	Six Months Ended September 30 2022	2023
Profit (loss)	(284)	(785)
Comprehensive income	(284)	(785)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(272)	(768)
Comprehensive income attributable to non-controlling interests	(11)	(16)

(3) Quarterly Consolidated Statement of Cash Flows

(In millions of yen)	Six Months Ended September 30	
	2022	2023
Cash flows from operating activities		
Profit (loss) before income taxes	(272)	(787)
Depreciation	171	237
Amortization of goodwill	25	43
Amortization of customer-related assets	-	35
Loss on retirement of property, plant and equipment	-	0
Impairment losses	-	203
Loss (gain) on sales of property, plant and equipment	-	(0)
Loss (gain) on business transfer	(13)	-
Loss on liquidation of subsidiaries and affiliates	-	42
Interest and dividend income	(0)	(0)
Interest expenses	0	5
Subsidy income	(1)	(0)
Decrease (increase) in trade receivables	73	52
Decrease (increase) in other current assets	(1)	12
Increase (decrease) in accounts payable - other, and accrued Expenses	51	196
Increase (decrease) in income taxes payable - factor based tax	(22)	(1)
Increase (decrease) in contract liabilities	32	11
Increase (decrease) in other current liabilities	(81)	(126)
Increase (decrease) in retirement benefit liability	(0)	(6)
Other, net	4	8
Subtotal	(33)	(74)
Interest and dividends received	0	0
Interest paid	(0)	(5)
Subsidies received	95	0
Income taxes paid	(19)	(17)
Net cash provided by (used in) operating activities	42	(96)
Cash flows from investing activities		
Purchase of property, plant and equipment	(37)	(31)
Purchase of intangible assets	(398)	(428)
Purchase of shares of subsidiaries and associates	-	(181)
Purchase of shares of subsidiaries resulting in change in scope of Consolidation	-	(1,870)
Proceeds from business transfer	16	-
Purchase of insurance funds	(5)	(5)
Proceeds from cancellation of insurance funds	-	-
Payments of leasehold and guarantee deposits	-	(6)
Proceeds from refund of leasehold and guarantee deposits	1	3
Net cash provided by (used in) investing activities	(423)	(2,521)
Cash flows from financing activities		
Proceeds from long-term debt	-	2,700
Repayments of long-term borrowings	(16)	(102)
Redemption of bonds	(3)	-
Payments for purchase of treasury stock	-	(1,165)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	64	49
Net cash provided by (used in) financing activities	44	1,480
Net increase (decrease) in cash and cash equivalents	(336)	(1,136)
Cash and cash equivalents at beginning of period	5,537	5,231
Cash and cash equivalents at end of period	5,201	4,094

(4) Notes to the consolidated financial statements

Going Concern Assumption

Not applicable.

Notes on significant changes in the amount of shareholders' equity

Repurchase of treasury stock

The Company repurchased 3,011,400 shares of treasury stock during the first half of the current fiscal year in accordance with the resolution of the Board of Directors meeting held on March 22, 2023. As a result, treasury stock increased by 1,165 million yen during the first half of the current fiscal year.

The repurchase of treasury stock based on this resolution was completed on August 17, 2023.

Disposal of treasury stock through third-party allotment

The Company disposed of 456,800 shares of treasury stock through a third-party allotment in accordance with the introduction of the "Stock Grant ESOP Trust" resolved at the Board of Directors meeting held on August 21, 2023. The Company shares remaining in the trust are recorded as treasury stock.

As a result, capital surplus and treasury stock increased by 3 million yen each during the period.

Exercise of Stock Options

Capital stock and capital reserve increased by 24 million yen and 24 million yen, respectively, as a result of the issuance of new shares upon exercise of stock options.

As a result, capital stock, capital surplus, and treasury stock amounted to 2,361 million yen, 4,515 million yen, and 1,203 million yen, respectively, at the end of the second quarter of the current fiscal year.

Segment Information

I. For the Three Months Ended September 30, 2022

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

(In millions of yen)	Reporting Segment			Adjustment (Note 1)	Amounts in the consolidated financial statements (Note 2)
	AI Platform	AI Products	Total		
Net sales					
Revenue from contracts with customers	2,301	320	2,622	-	2,622
Net sales to external customers	2,301	320	2,622	-	2,622
Intersegment revenue or transfers	-	-	-	-	-
Total	2,301	320	2,622	-	2,622
Segment profit (loss)	668	(187)	481	(768)	(287)

(Note) 1. Adjustment of segment income (loss) refers to expenses common to all segments.

2. Total segment profit (loss) agrees with operating profit (loss) of 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.

II. For the Three Months Ended September 30, 2023

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

(In millions of yen)	Reporting Segment				Adjustment (Note 1)	Amounts in the consolidated financial statements (Note 2)
	AI Platform	AI Products	Other Services	Total		
Net sales						
Revenue from contracts with customers	2,392	500	495	3,388	–	3,388
Net sales to external customers	2,392	500	495	3,388	-	3,388
Intersegment revenue or transfers	-	-	-	-	-	-
Total	2,392	500	495	3,388	-	3,388
Segment profit (loss)	599	(224)	26	401	(936)	(534)

(Note) 1. Adjustment of segment income (loss) refers to expenses common to all segments.

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

2. Matters related to changes in reportable segments, etc.

Change in classification of segment common expenses

Indirect expenses previously included in reporting segments are now included in adjustment. The segment information for the first quarter of the previous fiscal year has been prepared in accordance with the new segmentation method.

With the acquisition of STADIUM as a subsidiary, the "Other Services" segment has been designated as a new reportable segment. This segment includes the business of providing resources from the formulation of strategic tactics in sales issues for SaaS products/IT products, etc., which are operated by STADIUM.

This change in reporting segment has no impact on the segment information for the previous fiscal year.

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

Significant Impairment Loss on Fixed Assets

The amount of impairment loss on fixed assets by segment was 164 million yen in the "AI product business" segment and 38 million yen in the "AI platform business" segment.

Significant changes in the amount of goodwill

In the "Other Services" segment, regarding the acquisition and inclusion in the scope of consolidation of STADIUM in the first quarter of the current fiscal year, the amount of goodwill of 2,284 million yen was recorded as a tentatively calculated amount because the allocation of the acquisition cost had not been completed; however, the amount of goodwill was revised to 804 million yen because the allocation of the acquisition cost was completed in the second quarter of the current fiscal year and the tentative accounting treatment was finalized.

Significant gain on negative goodwill

Not applicable.

Business Combinations

Determination of Tentative Accounting Treatment for Business Combination

The provisional accounting treatment for the business combination with STADIUM, which took place on June 30, 2023, was tentatively determined in the first quarter of the current consolidated fiscal year and was finalized in the second quarter of the current consolidated fiscal year.

As a result, the amount of goodwill tentatively determined to be 2,284 million yen in the first quarter decreased by 1,479 million yen to 804 million yen. This was mainly due to an increase of 1,853 million yen in customer-related assets and 567 million yen in deferred tax liabilities, while current liabilities decreased by 58 million yen. In addition, goodwill decreased by 130 million yen due to the finalization of the conditional acquisition consideration.

Goodwill is amortized over a period of 9 years, and customer-related assets allocated other than goodwill are amortized over a period of 13 years.