

Financial Supplementary Materials

for the Second Quarter of FY2026

Headwaters Co., Ltd.

August 14, 2026

Securities code: 4011



FY2026 1H Consolidated Financial Results Overview

(Thousand yen)

	FY2025 1H Results	
		Pct. to net sales (%)
Net sales	1,637,995	100.0
Enterprise AI Solutions	1,584,251	-
AI Workflow Engineering	196,582	-
DATA & AI Engine	-	-
Inter-segment sales	(142,838)	-
Operating profit (loss)	(22,038)	-
Ordinary profit (loss)	(73,168)	-
Profit (loss) attributable to owners of parent	(37,311)	-
Basic earnings (loss) per share	(9.83) yen	

(Thousand yen)

FY2026 1H Results			
	Pct. to net sales (%)	YoY change (%)	Full-year forecast achievement rate (%)
3,351,490	100.0	204.6	39.2%
2,366,740	-	149.4	43.1%
863,862	-	439.4	32.8%
341,798	-	-	25.2%
(220,910)	-	-	-
271,799	8.1	-	36.0%
129,600	3.9	-	20.9%
(191,987)	-	-	-
(41.66) yen			

*Sales of BBD Initiative Inc. are recorded under the DATA & AI Engine and AI Workflow Engineering segments from the 2Q due to an absorption-type merger with this company on May 1, 2026.

(Reference) Inter-segment sales (thousand yen): Enterprise AI Solutions 39,522 / AI Workflow Engineering 181,388 / DATA & AI Engine 456 (eliminated on consolidation)



FY2026 1H Financial Summary

Due to the absorption-type merger with BBD Initiative Inc. as of May 1, 2026, the second quarter of FY2026 marked the start of full operations under a three-segment structure of Enterprise AI Solutions, AI Workflow Engineering and DATA & AI Engine. Sales and gross profit increased to new quarterly records due to the inclusion of BBD Initiative and the growth of Enterprise AI Solutions.

Net Sales

- We **achieved record high sales** for the fifth consecutive quarter by fully tapping into demand for AI **(2Q: up 132.4% YoY / up 65.5% QoQ)**
 - ➔ Enterprise AI Solutions: We tapped into demand for AI agents, and as a result of increasing unit sale prices through the in-depth pursuit of our loyal client strategy, an increase in net sales continued. (Net sales: 1,221,356 thousand yen).
 - ➔ AI Workflow Engineering: A big increase in sales backed by solid demand for AI-driven development and by the inclusion of BBD Initiative due to the absorption-type merger. (Net sales: 525,937 thousand yen)
 - ➔ DATA & AI Engine: Due to the absorption-type merger with BBD Initiative on May 1, 2026, booking of net sales started from the second quarter. (Net sales: 341,798 thousand yen)

Operating Profit / Ordinary Profit/ Loss attributable to owners of parent

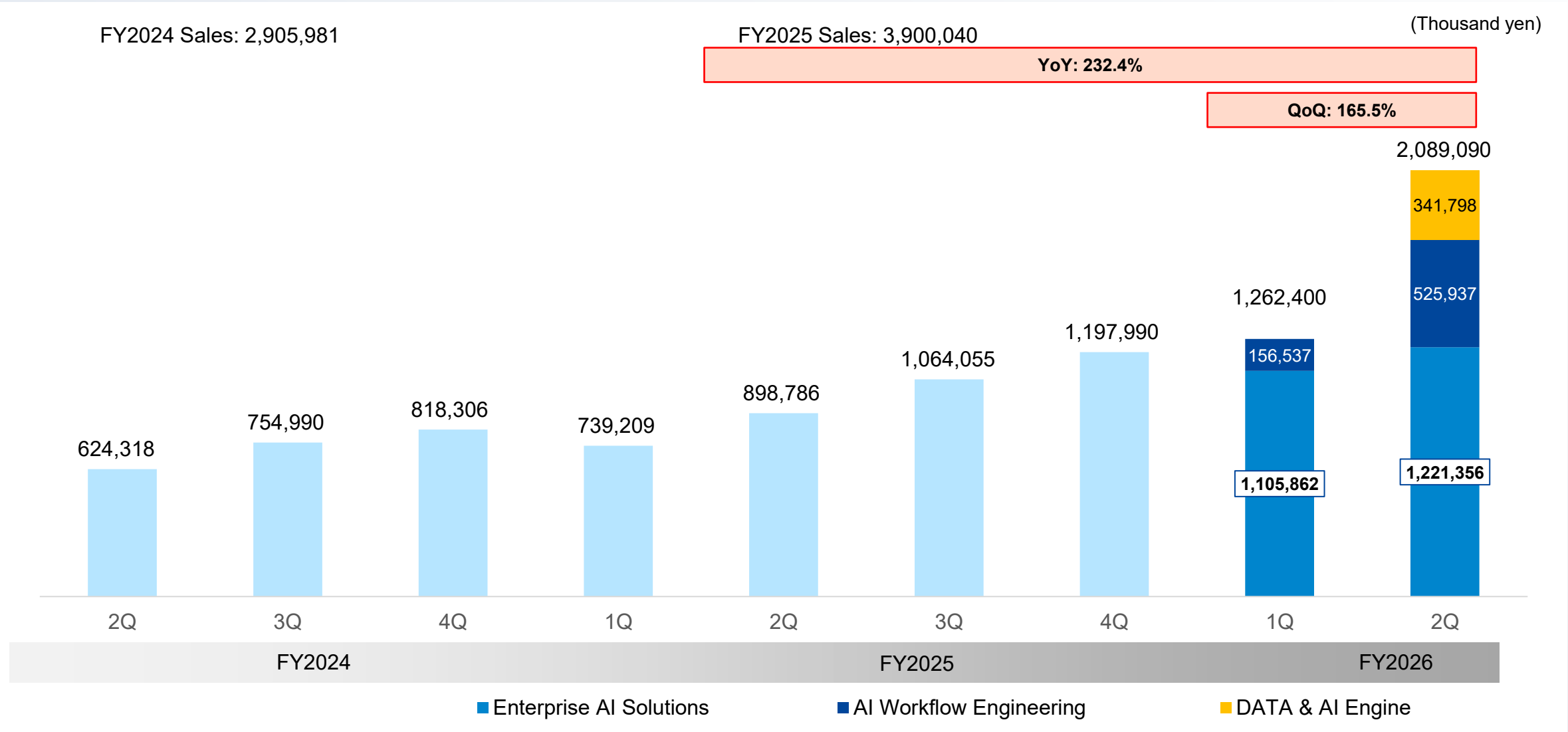
- Gross profit: **Achieved a record high gross profit** for the fifth consecutive quarter (2Q: 937,912 thousand yen / gross profit margin 44.9%)
- SG&A expenses: Expenses increased because of higher personnel expenses and expenses (including amortization of goodwill) and workforce growth resulting from the BBD Initiative merger. Despite higher expenses, there was a 2Q operating profit. 2Q SG&A expenses were 801,406 thousand yen, up 215.1% YoY. Goodwill is provisional and will be finalized using PPA.
- Operating profit and operating profit margin: Although expenses increased because of the BBD Initiative merger, **2Q operating profit was 136,506 thousand yen and operating profit margin was 6.5%.**
- Ordinary profit: (1H): There was a 1H ordinary **profit of 129,600 thousand yen** following the loss of 73,168 thousand yen for FY2025 1H.
 - ➔ Non-operating expenses included 79 million yen for share of loss of entities accounted for using the equity method incurred prior to the BBD Initiative merger and 21 million yen for interest expenses.
- Loss attributable to owners of parent: 191,987 thousand yen
 - ➔ Extraordinary loss mainly due to a 207 million yen loss on step acquisitions incurred when the BBD Initiative merger was completed.
 - ➔ The share of loss of entities accounted for using equity method incurred prior to the BBD Initiative merger and the loss on step acquisitions incurred when the merger was completed are both one-time expenses.

Recruiting

- There were 637 employees at the end of June 2026, a net increase of 236 from the end of the 1Q, including the employees of BBD Initiative.
- Target age groups in recruitment: Mainly mid- to high-level talent



Net Sales by Segment





Cost of Sales

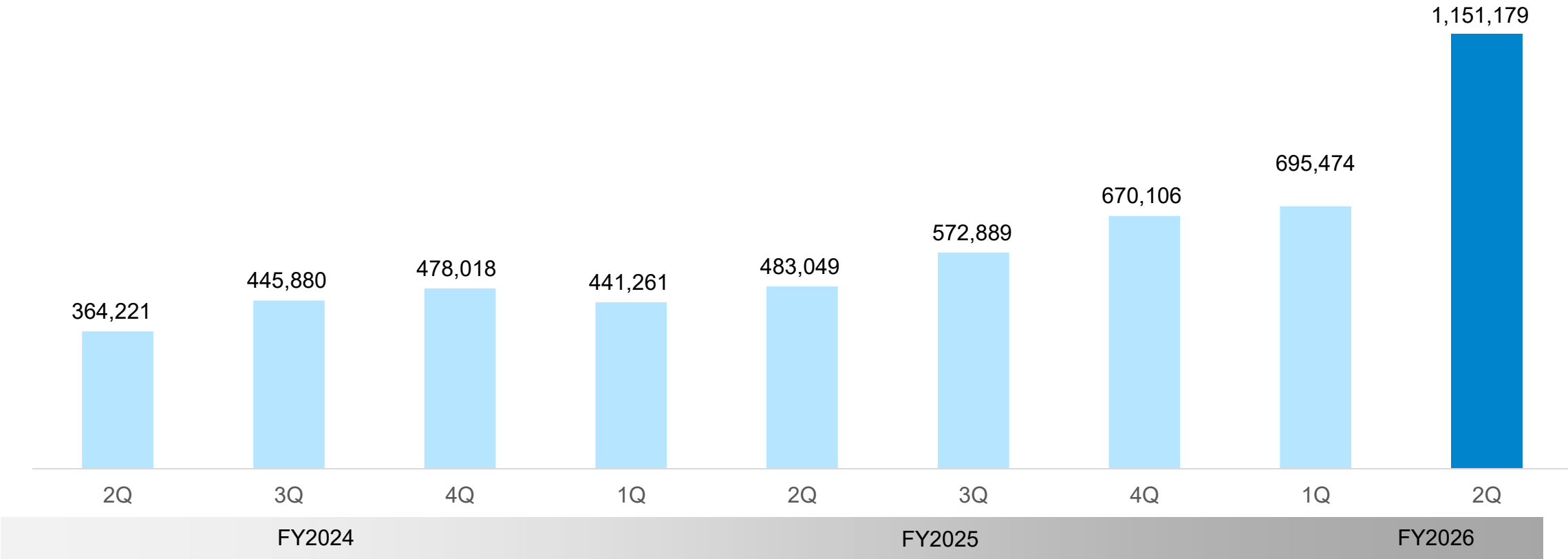
FY2024 Cost of Sales: 1,665,908

FY2025 Cost of Sales: 2,167,305

(Thousand yen)

YoY: 238.3%

QoQ: 165.5%





Gross Profit

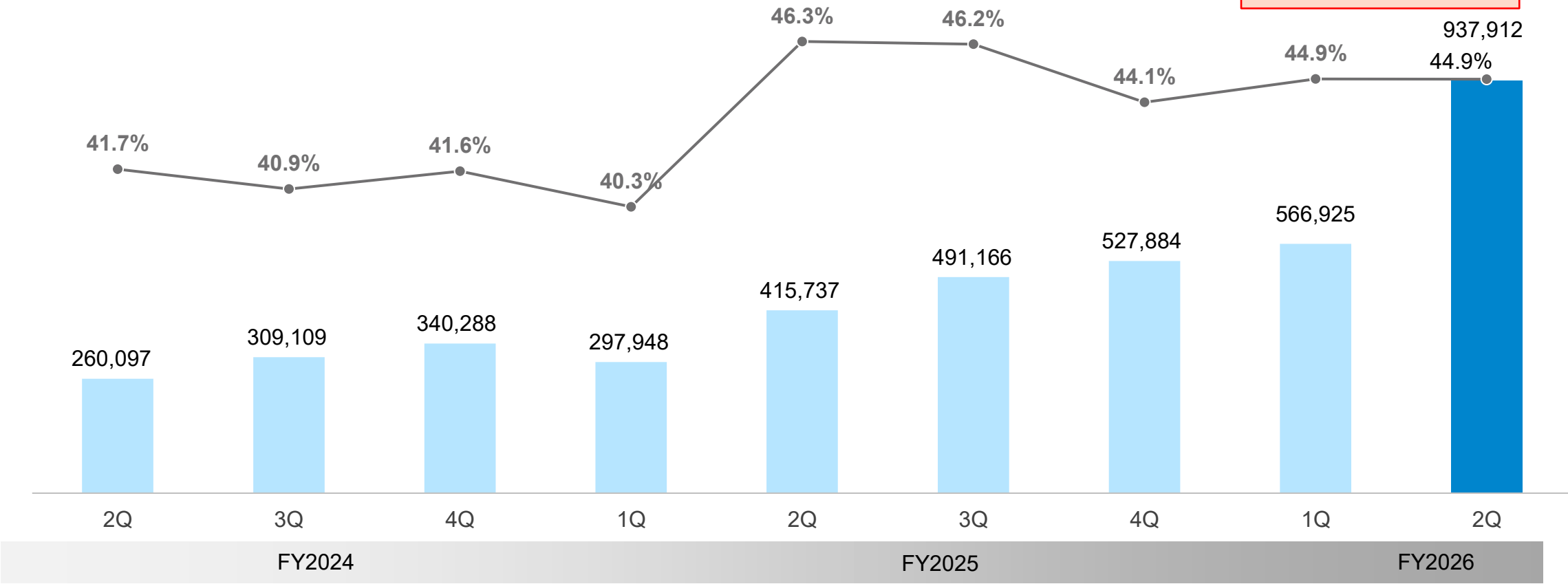
FY2024 Gross Profit: 1,240,073

FY2025 Gross Profit: 1,732,735

(Thousand yen)

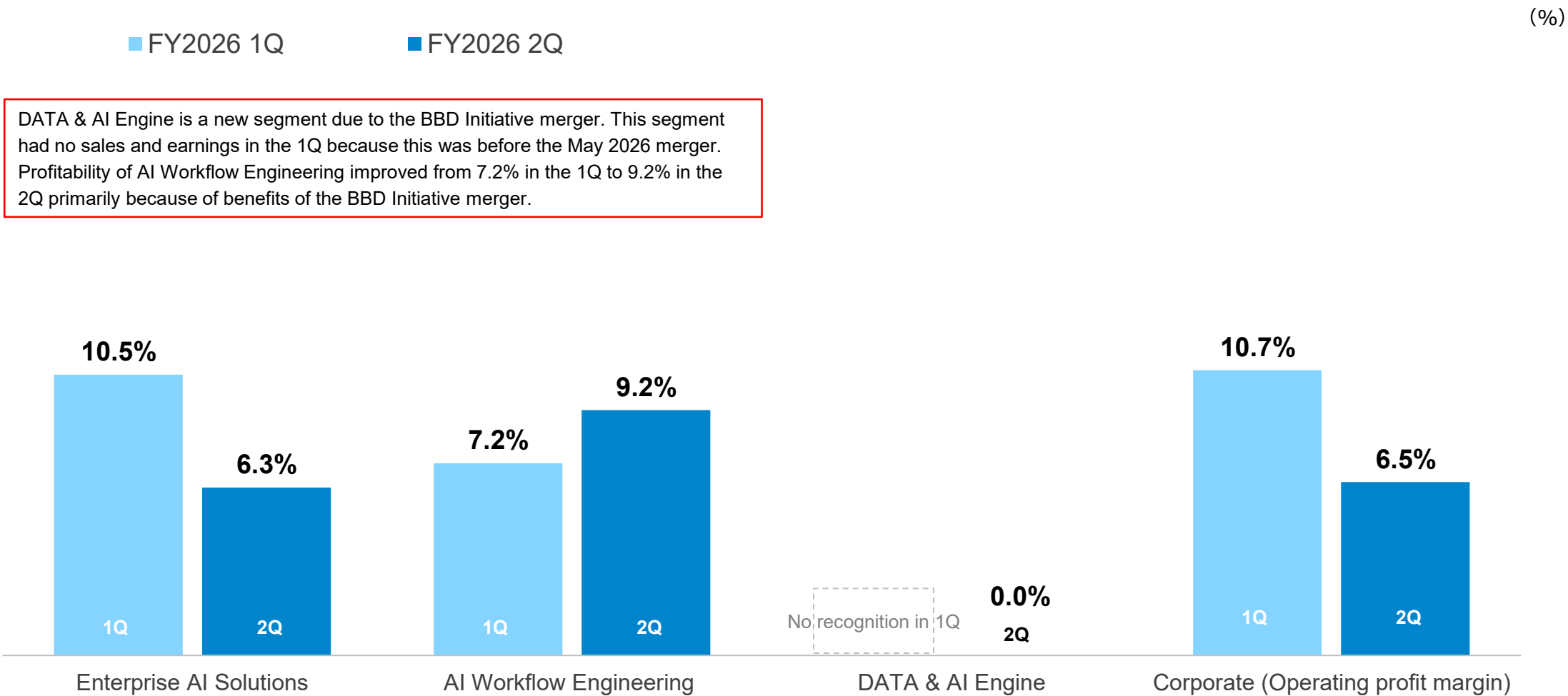
YoY: 225.6%

QoQ: 165.4%





Operating Profit Margin



*2Q profit margins are calculated by deducting 1Q results from 1H results. Profitability is segment profit divided by sales.



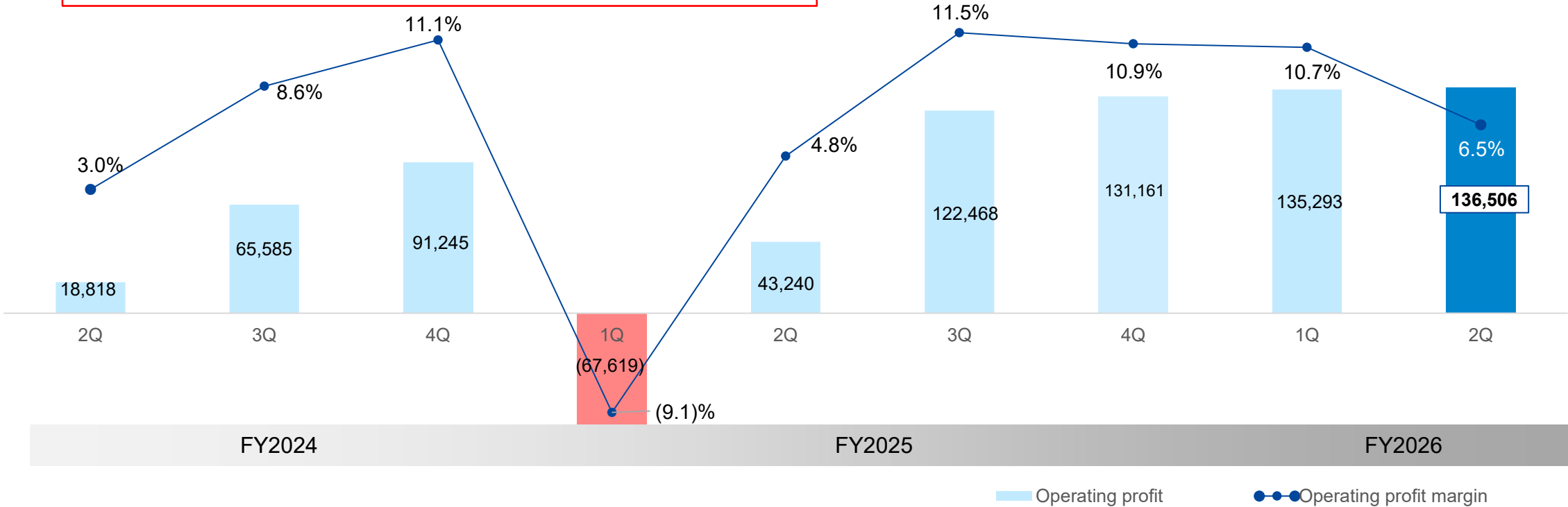
Operating Profit / Operating Profit Margin

(Thousand yen)

FY2024
Operating profit: 307,954

FY2025
Operating profit: 229,250

2Q of FY2026: Achieved quarterly record highs for net sales and gross profit. Operating profit was 136,506 thousand yen and operating profit margin was 6.5%. 2Q was profitable despite additional expenses caused by the BBD Initiative merger. Our goal is to further improve profitability by further implementing strategic growth investments while expanding AI-driven development, recurring revenue businesses and other initiatives.





SG&A Expenses

FY2024 SG&A expenses: 932,119

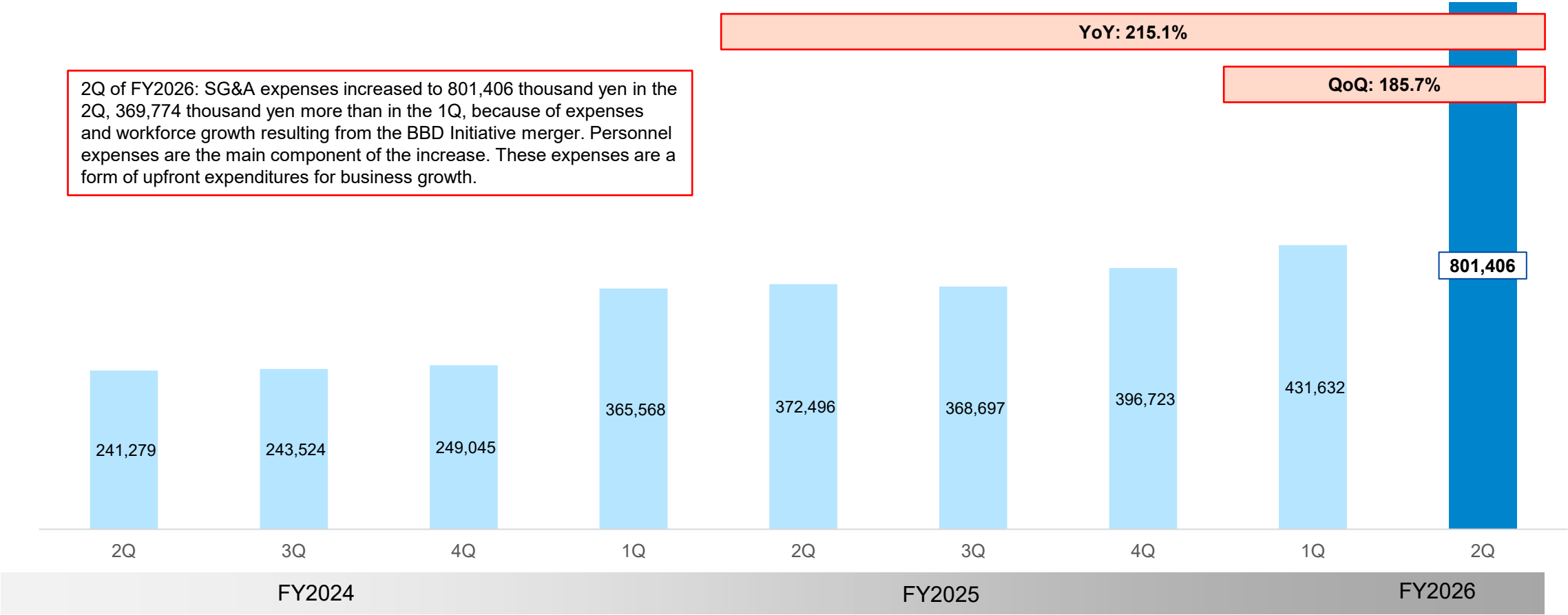
FY2025 SG&A expenses: 1,503,484

(Thousand yen)

2Q of FY2026: SG&A expenses increased to 801,406 thousand yen in the 2Q, 369,774 thousand yen more than in the 1Q, because of expenses and workforce growth resulting from the BBD Initiative merger. Personnel expenses are the main component of the increase. These expenses are a form of upfront expenditures for business growth.

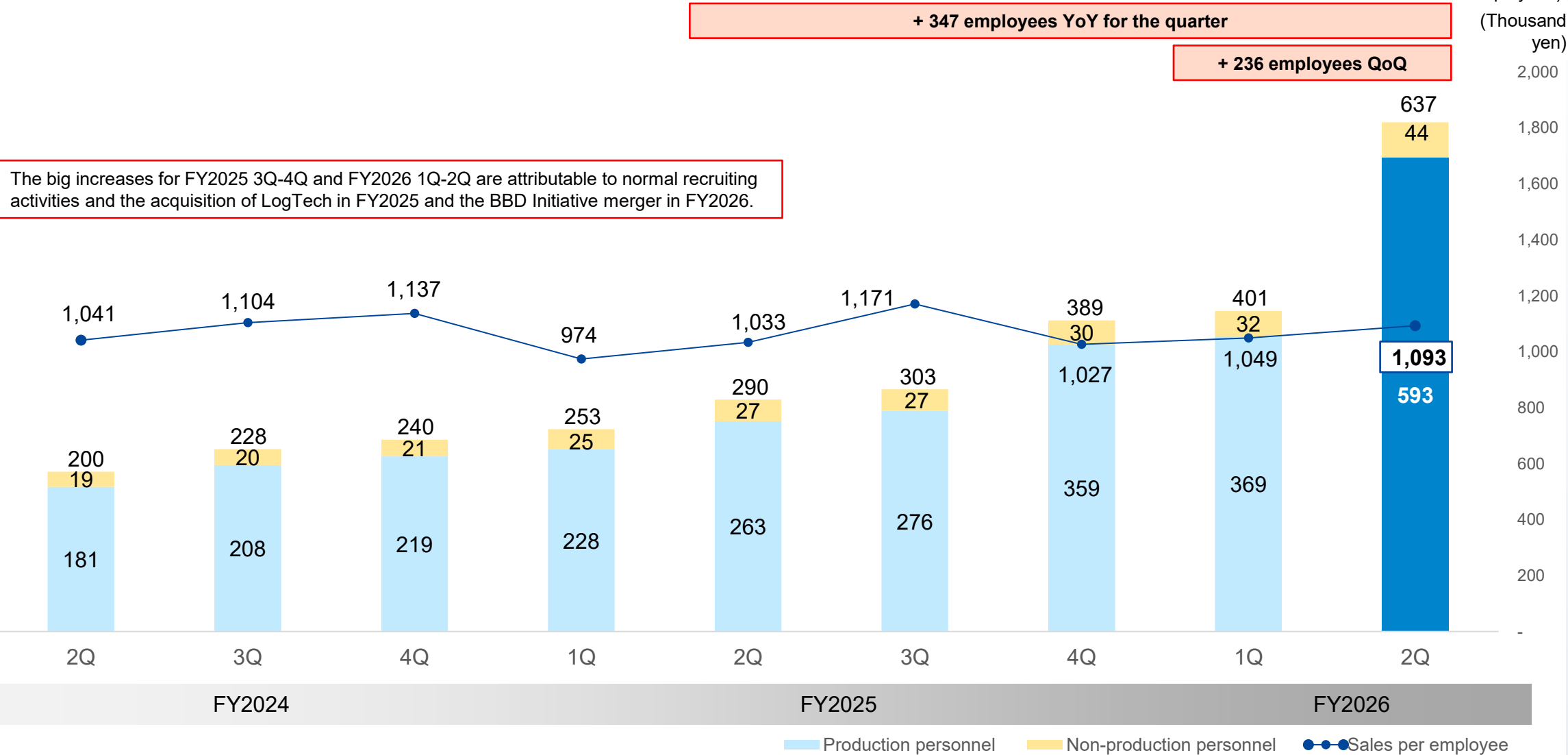
YoY: 215.1%

QoQ: 185.7%



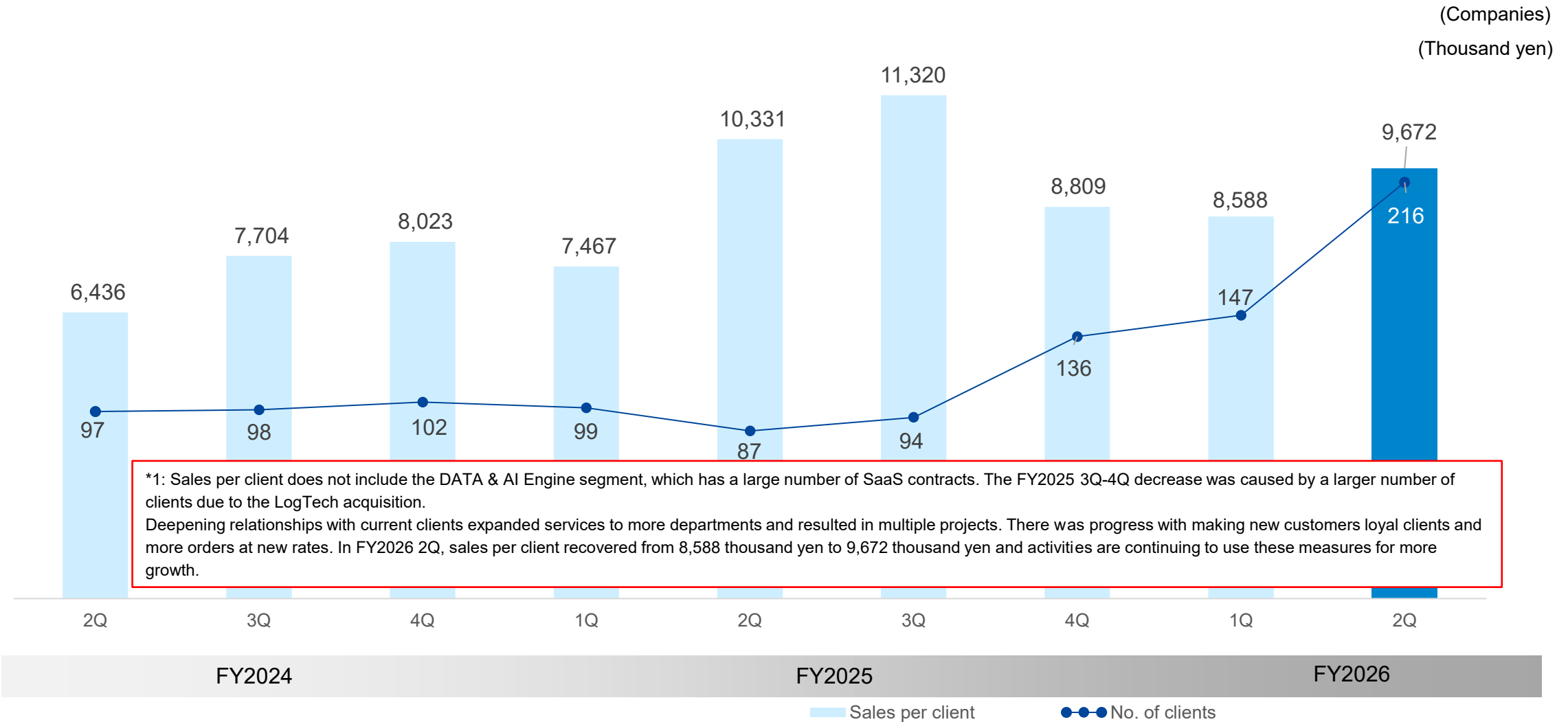


Employees, Monthly Sales Per Employee





Number of Clients and Sales Per Client





Business Segment Client Information (No. of Clients, Sales per Client, ARR)

(1) Sales (Quarterly, non-consolidated)

Segment	No. of clients (2Q)	Sales per client (2Q / thousand yen)	Net sales (2Q / thousand yen)
Enterprise AI Solutions	107	11,415	1,221,356
AI Workflow Engineering	123	4,276	525,937

(2) Recurring revenue (SaaS, ARR basis)

Segment	No. of contracts	ARR (thousand yen)	Net sales (2Q / thousand yen)
DATA & AI Engine	3,116	1,586,751	341,798

The number of clients, sales per client and ARR are shown from FY2026 2Q as reference indicators concerning the size and clients under the new segment structure.

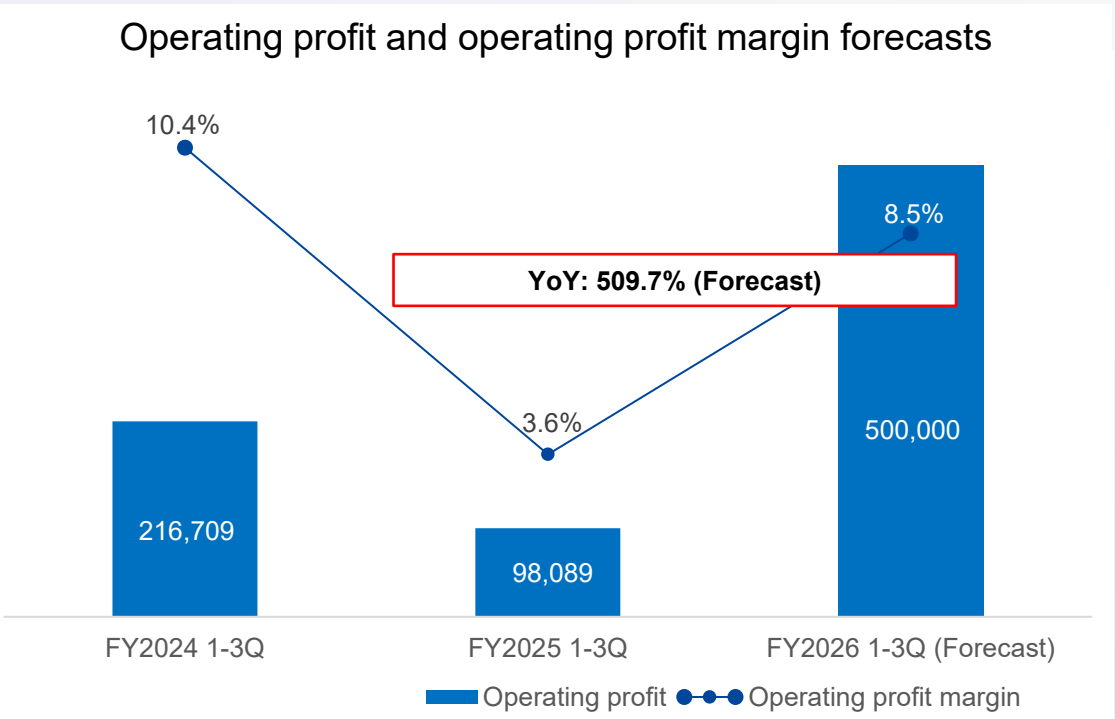
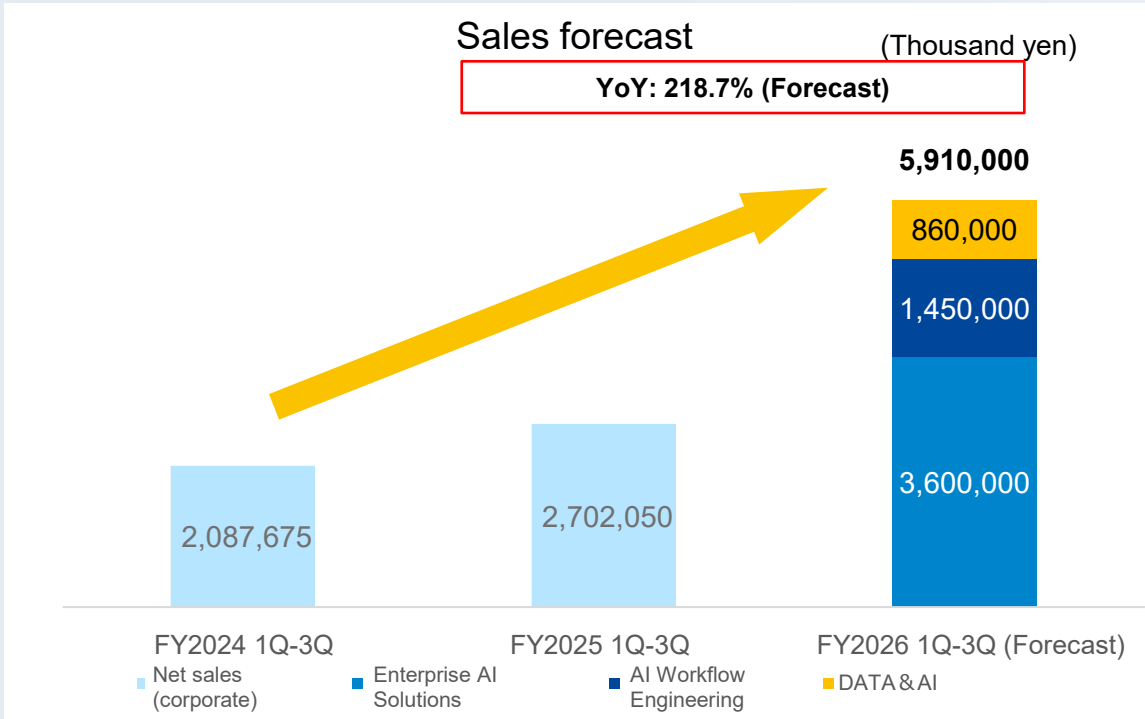
*Headwaters may revise performance indicators to reflect the characteristics of business operations, reviews of indicators used by management or other reasons.



Forecast for the Third Quarter of FY2026

Headwaters sees FY2026 as a period in which the AI market will continue to expand through AI agents. Based on this outlook, Headwaters is increasing the number of projects involving AI agents and using PMI to build a sound base for the operations of the Headwaters Group. These activities are expected to create an additional source of earnings starting in FY2026 3Q.

- Net sales: The FY2026 1Q-3Q forecast is 5,910 million yen, 76% more than 1Q-2Q sales because of more AI agent projects and stronger ties among group companies.
 - Gross profit margin: Forecast a margin of about 45% as in the 2Q.
 - SG&A expenses: Expenses are expected to be generally as planned even as investments continue for PMI and more growth.
 - Operating profit: Forecast a 3Q operating profit margin of more than 8% as the margin remains steady while sales grow.
- (The graphs show forecasts for the first three quarters.)



* Forecast figures may change as they are as of the time of disclosure of these materials.



IR News: <https://www.headwaters.co.jp/ir/news/>

■ Timely disclosure

- ✓ Results of Operations for FY2025
- ✓ Notice Regarding Issuance of New Shares as Restricted Shares to Directors of the Company
- ✓ Extraordinary Report
- ✓ Notice Regarding Major Shareholder Change
- ✓ Statutory Post-Merger Disclosure Documents (Absorption-type Merger) (BBD Initiative)
- ✓ Notice Regarding Completion of Payment for Issuance of New Shares as Restricted Stock Compensation to Directors of the Company
- ✓ Financial Supplementary Materials for the First Quarter of FY2026
- ✓ Notice regarding of Changes in Reportable Segments
- ✓ Notice regarding the Revision of the Full-year Earnings Forecasts
- ✓ Notice Regarding Financial Information Disclosure by BBD Initiative Following the Delisting Due to the Merger
- ✓ Notice Regarding Purchase of Treasury Stock due to Purchase of Fractional Shares Caused by the Merger
- ✓ Notice Regarding Recording of Non-operating expenses
- ✓ Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2026 (Under Japanese GAAP)
- ✓ Extraordinary Report



IR News: <https://www.headwaters.co.jp/ir/news/>

■ Achievements / Services

- ✓ Development of package design support AI agent for TRY-FU
- ✓ Start of the AI-Rule as Code solution for regulated industries. Structural reduction in the cost of modifying IT systems every time a law or regulation is revised.
- ✓ Headwaters confirms the effectiveness of an AI agent for JRE MALL, the e-commerce site of East Japan Railway Company.
- ✓ Headwaters designs and develops a new AI-OCR system using the generative AI of Daiichi Life Insurance Co., Ltd. Data reading accuracy up 20% and operating cost down about 50%.
- ✓ Headwaters Group company BoostMarketing started providing Dekinai Zero AI (AI that can do anything), an AI agent service using Dify.
- ✓ The SAIDDar AI engineering OS of Headwaters uses AI-driven development for organizational standards rather than reliance on individual decisions.
- ✓ Headwaters Group company Net Business Support started the first partnership in Japan with Clay Inc., a U.S. unicorn AI company.
- ✓ Headwaters Group company DATA IMPACT JOINT STOCK COMPANY took first place in the corporate category of the Microsoft Agent Hackathon.



- This document contains outlooks, future plans and management goals related to Headwaters. Descriptions regarding these forward-looking statements are based on assumptions made at the current moment about future events and trends, and there is no guarantee that these assumptions are accurate. Various factors may cause actual performance to significantly differ from what is described in this document.
- In this document, numerical comparisons are presented in the following three categories.
 - **QoQ:** A comparison between the figures of the previous quarter and the current quarter
 - Comparison between figures of FY2026 1Q and FY2026 2Q
 - **YoY:** A comparison between the cumulative figures of the previous fiscal year and the current fiscal year
 - Comparison between figures of FY2025 1Q-2Q and FY2026 1Q-2Q
 - **YoY for the Quarter:** A comparison between the figures of the corresponding quarter for the previous fiscal year and the current fiscal year
 - Comparison between figures of FY2025 2Q and FY2026 2Q
- Unless otherwise specified, the financial information in this document is based on generally accepted accounting principles in Japan.
- Information regarding companies other than Headwaters is based on generally known information.