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May 12, 2023

## Consolidated Financial Results for the Nine months ended March 31, 2023 (Under Japanese GAAP)

Company name: BrainPad Inc.  
 Listing: Tokyo Stock Exchange  
 Securities code: 3655  
 URL: <https://www.brainpad.co.jp/english/>  
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 Scheduled date to file quarterly securities report: May 12, 2023  
 Scheduled date to commence dividend payments: -  
 Preparation of supplementary material on quarterly financial results: Yes  
 Holding of quarterly financial results briefing: Yes (for analysts)

(Yen amounts are rounded down to millions, unless otherwise noted.)

### 1. Consolidated financial results for the nine months ended March 31, 2023 (from July 1, 2022 to March 31, 2023)

#### (1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
March 31, 2023	7,211	—	561	—	620	—	438	—
March 31, 2022	—	—	—	—	—	—	—	—

Note: Comprehensive income For the nine months ended March 31, 2023: ¥425 million [ - %]  
 For the nine months ended March 31, 2022: ¥ - million [ - %]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended		
March 31, 2023	20.17	-
March 31, 2022	-	-

Note: The Company disclosed non-consolidated business results for the third quarter of the fiscal year ending June 30, 2022, but has been disclosing consolidated business results since the first quarter of the fiscal year ending June 30, 2023.

Therefore, "Consolidated operating results (cumulative)" and "Percentage change from the same period of the previous year" for the third quarter of the fiscal year ending June 30, 2022 are not shown.

#### (2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
March 31, 2023	6,427	5,017	78.1
March 31, 2022	-	-	-

Reference: Equity As of March 31, 2023: ¥5,017 million  
 As of March 31, 2022: ¥ - million

Note: The Company disclosed non-consolidated business results for the third quarter of the fiscal year ending June 30, 2022, but has been disclosing consolidated business results since the first quarter of the fiscal year ending June 30, 2023.

Therefore, "Consolidated financial position" for the fiscal year ending June 30, 2022 is not shown.

## 2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	-	0.00	-	0.00	0.00
Fiscal year ending March 31, 2022	-	-			
Fiscal year ending March 31, 2022 (Forecast)			-	8.00	8.00

Note: Revisions to the forecast of cash dividends most recently announced: Yes

For the revision of the dividend forecast, please refer to the "Notice of Revision of Consolidated Earnings Forecast and Revision of Dividend Forecast (Commencement of Dividend Payment) for the Fiscal Year Ending June 30, 2023" released today (May 12, 2023).

## 3. Forecast of Consolidated Financial Results for the Fiscal Year Ending June 30, 2023 (July 1, 2022 - June 30, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	9,750	-	700	-	760	-	530	-	24.42

Note: Revisions to the forecast of financial results most recently announced: Yes

The Company has shifted to consolidated accounting from the first quarter of the fiscal year ending June 30, 2023.

Since the Company did not consolidate its financial results for the fiscal year ended June 30, 2022, "Percentage change from the previous year" is not shown in the above table.

For the revision of the consolidated earnings forecast, please refer to the "Notice of Revision of Consolidated Earnings Forecast and Revision of Dividend Forecast (Commencement of Dividend Payment) for the Fiscal Year Ending June 30, 2023" released today (May 12, 2023).

**\* Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: - companies (Company name)

Excluded: - companies (Company name)

(2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

Note: For details, please refer to "2. Quarterly Consolidated Financial Statements and Main Notes (3) Notes to Quarterly Consolidated Financial Statements (Changes in Accounting Policies)" on page 8 of the attached document.

(4) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2023	22,300,596 shares
As of March 31, 2022	22,300,596 shares

(ii) Number of treasury shares at the end of the period

As of March 31, 2023	595,504 shares
As of March 31, 2022	372,594 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Nine months ended March 31, 2023	21,744,875 shares
Nine months ended March 31, 2022	22,010,274 shares

\* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

\* Proper use of earnings forecasts, and other special matters

1. The forward-looking statements, including business forecasts, contained in this document are based on information currently available to the Company and certain assumptions that the Company considers reasonable, and are not intended to be a promise by the Company that it will achieve them. Actual results may differ materially from these forecasts due to various factors. Please refer to "(3) Explanations on forward-looking statements, including earnings forecasts" on page 4 of the attached materials for the conditions that form the assumptions for earnings forecasts and cautions concerning the use of earnings forecasts.
2. Qualitative Information on Consolidated Financial Position Supplementary materials for financial results are disclosed on TDnet on the same day.
3. The Company shifted from non-consolidated to consolidated financial statements from the first quarter of the fiscal year ending June 30, 2023, following the acquisition of TimeTechnologies Ltd. on July 29, 2022.

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## 1. Qualitative Information on consolidated Financial Results for the Fiscal Year Ended June 30, 2023

### (1) Explanation of business results

We have prepared quarterly consolidated financial statements from the first quarter of the current fiscal year following the acquisition of TimeTechnologies Ltd. on July 29, 2022, making it a consolidated subsidiary. Therefore, comparative analysis with the same period of the previous year and the end of the previous fiscal year is not performed.

During the third quarter of the consolidated fiscal year under review, the Japanese economy continued to grow at a moderate pace as socioeconomic activities began to normalize from the impact of the spread of the new coronavirus infection and as service consumption and inbound demand gradually recovered, despite high domestic prices and a slowdown in overseas economies, which put downward pressure on the economy. While the domestic ICT market continues to grow solidly on the back of the migration of corporate systems to the cloud and the expansion of subscription businesses, the shortage of human resources capable of supporting corporate DX (Digital Transformation) from both IT and business perspectives is becoming even more serious.

Under these circumstances, the current consolidated fiscal year, the 20th fiscal year of our group, is the final year of our medium-term management plan (4 years from June 2020 to June 2023), and we continue to expand and strengthen our organizational structure and aim for sales growth of around 20%, based on our view that strong demand for IT vendors will continue as Japanese companies promote DX and data utilization and there is a shortage of digital human resources.

Although the first half performance of the 19th fiscal year was stronger than expected, we had expected that the impact of new orders not reaching our expectations in the fourth quarter would continue to a certain extent in the first half of the current fiscal year. Therefore, the forecast for the current fiscal year is both sales and profits will be biased toward the second half of the year.

During the nine months ended March 31, 2023, despite efforts to recover sales from the second half of the year based on a plan weighted toward the second half of the year, sales to certain large customers shrank, and new orders did not grow as expected, while net sales increased year on year, the pace of growth fell short of the plan at the beginning of the period.

On the profit side, a loss was recorded in the third quarter of the current consolidated fiscal year as a provision for loss on contracts for amounts expected to go unused in the future under multi-year usage commitment contracts related to cloud computing expenses. In addition, the utilization ratio has temporarily declined due to the increase in the number of employees as an upfront investment through the first quarter of the consolidated fiscal year, and profits have fallen short of the initial plan. In light of this situation, the Company has already controlled the pace of mid-career hiring and continues to focus on improving the utilization ratio.

As a result, for the fiscal year, net sales totaled 7,211,335 thousand yen, operating profit totaled 561,242 thousand yen, ordinary profit totaled 620,812 thousand yen, and profit attributable to owners of parent totaled 438,530 thousand yen.

The following is a summary of results by segment.

#### (Professional Services Business)

The professional services business supports client companies in their use of data through consulting and human support, including data analysis and system development.

During the nine months ended March 31, 2023, net sales were lower than planned at the beginning of the period, although sales per quarter reached a record high, due to a contraction in sales to certain large customers, and new orders have not grown as anticipated.

On the other hand, segment profit remained below the previous year's level due to a temporary decline in the utilization ratio caused by the increase in the number of employees as a prior investment through the first quarter of the fiscal year.

As a result, net sales totaled 4,961,580 thousand yen and segment profit totaled 1,722,834 thousand yen.

#### (Product Business)

The product business provides support for client companies' data utilization through the provision of our own and other companies' products.

During the nine months ended March 31, 2023, Brainpad Inc. focused its management resources on its core products and strengthened its sales and marketing process functions and sales capabilities by promoting

departmental collaboration. In addition, the results of consolidated subsidiary TimeTechnologies Ltd. from October 1, 2022 to March 31, 2023 are reflected and contributed to the increase in revenue.

While Brainpad Inc.'s normal segment profit margin is on a recovery trend, the segment profit margin declined compared to the first half of the fiscal year due to a loss recorded in the third quarter of the current fiscal year as a provision for contract losses for amounts expected to be unused in the future in multi-year usage commitment contracts related to cloud computing expenses.

As a result, net sales totaled 2,249,755 thousand yen and segment profit totaled 317,200 thousand yen.

## (2) Explanation of Financial Position

### Analysis of Financial Position

#### (Assets)

Current assets at the end of the third quarter of the current fiscal year totaled 3,974,989 thousand yen. The main breakdown was cash and deposits of 2,291,755 thousand yen and notes and accounts receivable of 1,311,629 thousand yen.

The balance of noncurrent assets was 2,452,323 thousand yen. The main breakdown was 798,510 thousand yen in investments and other assets, 589,849 thousand yen in goodwill, and 562,891 thousand yen in tangible fixed assets.

As a result, total assets amounted to 6,427,312 thousand yen.

#### (Liabilities)

Current liabilities at the end of the third quarter totaled 1,165,166 thousand yen. The major breakdown was 213,270 thousand yen in accrued expenses, 211,393 thousand yen in other current liabilities, 177,077 thousand yen in contract liabilities, 171,532 thousand yen in accounts payable, 139,133 thousand yen in accounts payable, and 126,615 thousand yen in income taxes payable.

The balance of noncurrent liabilities was 244,166 thousand yen. The breakdown is asset retirement obligations of 147,892 thousand yen and other long-term liabilities of 96,274 thousand yen.

As a result, total liabilities amounted to 1,346,167 thousand yen.

#### (Net assets)

Total net assets as of the end of the third quarter of the current consolidated fiscal year totaled 5,017,979 thousand yen. The main breakdown is retained earnings of 4,723,905 thousand yen.

As a result, the equity ratio was 78.1%.

## (3) Explanations regarding the forecast of business results and other future information

The "Basic Policy on Economic and Fiscal Management and Reform 2022" presented by the Japanese government in June 2022 includes a drastic strengthening of "investment in people," clarification of national strategies in science and technology fields such as quantum and artificial intelligence (AI), and development of human resources to promote digital technology. In Japan, there is still a strong shortage of high-level IT personnel, and it is essential for Japanese companies to have IT vendors that can accompany their clients and lead digital transformation.

In light of this situation, our group believes that demand for data utilization to bring about digital transformation will continue to rise, and in the current consolidated fiscal year, we have continued to expand and strengthen our organizational structure to demonstrate our "comprehensive capabilities in data utilization," aiming for sales growth of around 20%. However, the pace of sales growth in the second half of the fiscal year and beyond will be less than planned at the beginning of the period, and in light of the progress of profits through the first nine months of the current fiscal year, the Board of Directors today revised the consolidated earnings forecast for the full fiscal year.

In addition, at the same Board of Directors meeting, the Company resolved to adopt a medium-term management plan for the next term, to update its basic policy on capital policy and shareholder returns within that plan, and to commence the payment of dividends from surplus based on this new policy.

For details of these revisions, please refer to the "Notice of Revisions to Consolidated Earnings Forecasts and Dividend Forecasts (Commencement of Dividends) for the Fiscal Year Ending June 30, 2023" released today.

(Forecasts are based on information available at the time of preparation and include uncertain factors. As such, actual results may differ from these forecasts due to changes in various factors, including the economic environment.)

## 2. Quarterly Consolidated Financial Statements and Major Notes

### (1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

As of March 31, 2023

Assets	
Current assets	
Cash and deposits	2,291,755
notes receivable, accounts receivable	1,311,629
work in progress	85,880
prepaid expenses	281,739
Other	3,984
Total current assets	3,974,989
fixed assets	
property, plant and equipment	562,891
Intangible fixed assets	
software	167,624
Goodwill	589,849
Other	333,448
Total intangible fixed assets	1,090,921
Investments and other assets	798,510
Total fixed assets	2,452,323
total assets	6,427,312

(Unit: thousand yen)

As of March 31, 2023

Liabilities	
current liabilities	
accounts payable – trade	139,133
accounts payable – other	171,532
accrued expenses	213,270
Income taxes payable	126,615
contract liabilities	177,077
Allowance for bonuses	54,499
Allowance for loss on orders received	22,400
Allowance for loss on contracts	49,243
Other	211,393
Total current liabilities	1,165,166
fixed liabilities	
Asset retirement obligations	147,892
Other	96,274
Total long-term liabilities	244,166
total liabilities	1,409,332
Total net assets	
capital stock	
capital stock	597,809
Capital surplus	574,509
Retained earnings	4,723,905
treasury stock	△878,841
Total shareholders' equity	5,017,383
Valuation and translation adjustments	
Net unrealized gains (losses) on available-for-sale securities, net of taxes	596
Total valuation and translation adjustments	596
Total net assets	5,017,979
Total liabilities and net assets	6,427,312



(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income  
(Quarterly Consolidated Statements of Income)  
(Third quarter cumulative period)

(Unit: thousand yen)

	Nine months ended March 31, 2023
Net sales	7,211,335
cost of sales	4,333,405
Gross profit	2,877,930
Selling, general and administrative expenses	2,316,687
Operating income	561,242
Non-operating income	
interest income, Dividends received	12
Sales incentives received	6,257
Subsidy income	33,154
Equity in earnings of affiliates	23,318
Other	10,950
Total non-operating income	73,693
Non-operating expenses	
foreign exchange loss	521
Equity in losses of affiliates	11,259
Loss on investment partnership management	2,130
Fees and commissions	211
Other	14,123
Ordinary income	620,812
Extraordinary income	
Gain on sales of investment securities	41,471
Total extraordinary income	41,471
Extraordinary loss	
Loss on retirement of fixed assets	3,399
Total extraordinary loss	3,399
Income before income taxes and minority interests	658,884
Corporate, inhabitant and enterprise taxes	232,115
Income taxes-deferred	△11,761
Total income taxes	220,353
Net income	438,530
Net income attributable to noncontrolling interests	-
Net income attributable to owners of parent	438,530

(Quarterly Consolidated Statements of Comprehensive Income)  
(Third quarter cumulative period)

(Unit: thousand yen)

		Nine months ended March 31, 2023
Net income		438,530
Other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities, net of taxes		△12,534
Total other comprehensive income		△12,534
Comprehensive income		425,996
(Breakdown)		
Comprehensive income attributable to parent company shareholders		425,996
Comprehensive income attributable to noncontrolling interests		—

(3) Notes to Quarterly Consolidated Financial Statements

(Note on going concern assumption)

Not applicable.

(Note in the event of a significant change in shareholders' equity)

We acquired 273,900 shares of treasury stock based on a resolution of the Board of Directors meeting held on August 10, 2022, while it disposed of 52,100 shares of treasury stock as restricted stock compensation based on a resolution of the Board of Directors meeting held on September 29, 2022. As a result, treasury stock increased by 222,939 thousand yen during the first half of the current consolidated fiscal year, and treasury stock totaled 878,841 thousand yen at the end of the first half of the current consolidated fiscal year.

(Change in accounting policy)

(Application of Accounting Standards for Calculation of Fair Value, etc.)

We have applied the "Accounting Standard for Measurement of Fair Value" (ASBJ Statement No. 31, June 17, 2021; hereinafter referred to as the "Accounting Standard for Measurement of Fair Value"), etc. from the beginning of the first quarter of the fiscal year ending June 30, 2023, and in accordance with the transitional treatment prescribed in Paragraph 27-2 of the Accounting Standard for Measurement of Fair Value, we have decided to apply the new accounting policy prescribed by the Accounting Standard for Measurement of Fair Value, etc. prospectively.

The adoption of this accounting standard has no impact on the quarterly consolidated financial statements.

(Segment Information, etc.)

Nine months ended March 31, 2023 (July 1, 2022 - March 31, 2023)

1. Information on net sales and income or loss by reportable segment

(Unit: thousand yen)

	Reportable segment			Adjustment amount (Note) 1	Amount on Statement of Income (Note) 2
	Professional Services Business	Product Business	Total		
Net sales					
Net sales to external customers	4,961,580	2,249,755	7,211,335	—	7,211,335
Intersegment sales and transfers	—	—	—	—	—
Total	4,961,580	2,249,755	7,211,335	—	7,211,335
Segment profit (loss)	1,722,834	317,200	2,040,035	△1,478,792	561,242

Notes:

1. Adjustment of segment income includes corporate expenses of 1,478,792 thousand yen that are not allocated to each reportable segment. Corporate expenses mainly consist of selling, general and administrative expenses of sales and administrative departments that do not belong to any reportable segment.
2. Segment income is adjusted with operating profit in the statements of income.

2. Information on Impairment Loss on Fixed Assets or Goodwill by Reportable Segment

(Significant impairment loss on fixed assets)

Not applicable.

(Significant changes in the amount of goodwill)

In the first quarter of the current consolidated fiscal year, the amount of goodwill increased in the "product business" due to the acquisition of shares of TimeTechnologies Ltd. and its inclusion in the scope of consolidation. The amount of goodwill increased by 655,388 thousand yen in the third quarter of the current consolidated fiscal year as a result of this event.

The amount of goodwill is after reflecting the significant revision of the initial allocation of acquisition cost due to the finalization of the provisional accounting treatment for the business combination.

(Significant gain on negative goodwill)

Not applicable.

(Significant subsequent events)

(Acquisition of treasury stock)

At a meeting of the Board of Directors held on May 12, 2023, the Company resolved matters pertaining to the acquisition of treasury stock in accordance with Article 156 of the Companies Act as applied pursuant to Article 165-3 of the same act.

(1) Reason for acquisition of treasury stock

At a meeting of the Board of Directors held on May 12, 2023, the Company resolved the next medium-term management plan, and within the plan updated its basic policy regarding capital policy and shareholder returns. In terms of shareholder returns, the Company's basic policy is to aim for a consolidated total return ratio of 40% or more, with the goal of securing a stable consolidated operating margin of 10% or more in the future. Based on the above basic policy, this acquisition of treasury stock is intended to return profits to shareholders and improve capital efficiency, as well as to utilize the treasury stock for stock-based compensation for directors and employees, and for M&A and capital tie-ups using the treasury stock.

(2) Details of matters pertaining to acquisition of treasury stock

- |   |  |
|---|--|
| (i) Type of shares to be acquired:          | Common stock   |
| (ii) Total number of shares to be acquired: | 350,000 shares (maximum)<br>(Ratio to the total number of shares issued : 1.61%)<br>(excluding treasury stock) |
| (iii) Period to acquire:                    | From May 15, 2023 to June 30, 2023   |
| (iv) Total acquisition cost:                | 200,000 thousand yen (maximum)   |
| (v) Method of acquisition:                  | Purchase on the Tokyo Stock Exchange   |