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February 10, 2023

Consolidated Financial Results for the Six months ended December 31, 2022 (Under Japanese GAAP)

Company name: BrainPad Inc.
 Listing: Tokyo Stock Exchange
 Securities code: 3655
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 Scheduled date to file quarterly securities report: February 10, 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 six months ended December 31, 2022 (from July 1, 2022 to June 30, 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	%
Six months ended								
December 31, 2022	4,731	—	428	—	478	—	322	—
December 31, 2021	—	—	—	—	—	—	—	—

Note: Comprehensive income For the six months ended December 31, 2022: ¥306 million [- %]
 For the six months ended December 31, 2021: ¥ - million [- %]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
December 31, 2022	14.83	-
December 31, 2021	-	-

Note: The Company conducted a stock split on January 1, 2022, at a ratio of 3 shares per share of common stock. Basic earnings per share is calculated on the assumption that the stock split was conducted at the beginning of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
December 31, 2022	6,245	4,898	78.4
December 31, 2021	-	-	-

Reference: Equity As of December 31, 2022: ¥4,898 million
 As of December 31, 2021: ¥ - million

Note: Although we disclosed non-consolidated results for the fiscal year ended June 30, 2022, we began disclosing consolidated results in the first quarter of the fiscal year ending June 30, 2023. Therefore, "Total Assets," "Net Assets," "Equity Ratio," and "Shareholders' Equity" for the period ended June 30, 2022 are 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 December 31, 2022	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2022	-	-			
Fiscal year ending December 31, 2022 (Forecast)			-	0.00	0.00

Note: Revisions to the forecast of cash dividends most recently announced: None

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	10,300	-	1,100	-	1,140	-	800	-	36.86

Note: Revisions to the forecast of financial results most recently announced: None

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 same period of the previous year" and "Percentage change from the previous year" are not shown in the above table.

* **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

(4) Number of issued shares (common shares)

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

As of December 31, 2022	22,300,596 shares
As of December 31, 2021	22,300,596 shares

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

As of December 31, 2022	595,094 shares
As of December 31, 2021	372,594 shares

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

Six months ended December 31, 2022	21,764,264 shares
Six months ended December 31, 2021	22,050,003 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, a comparative analysis with the previous consolidated fiscal year is not performed for "(2) Explanation of Financial Position".

During the first half of the consolidated fiscal year under review, the Japanese economy saw the spread of the new coronavirus begin to slow down, and the government's travel support policies and easing of border control measures supported a recovery in service consumption. However, the pace of economic recovery remained moderate due to worsening terms of trade caused by the yen's depreciation and a downturn in corporate earnings caused by the slowdown in overseas economies. The domestic ICT market continues to grow steadily on the back of the shift to cloud computing for enterprise systems and the expansion of subscription businesses, but the shortage of human resources to support DX (Digital Transformation) in terms of both IT and business is becoming increasingly 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.

In the first half of the current fiscal year, despite the impact of new orders not reaching expectations in the fourth quarter of the 19th fiscal year, as mentioned above, sales were in line with the forecast made at the beginning of the period, as the Company worked to increase the size and length of existing projects and acquire new projects that will lead to increased sales from the second half of the fiscal year.

On the cost side, expenses were slightly below the initial forecast due to cost controls, including a slowdown in the pace of hiring mid-career employees for some positions in line with the progress of sales, and a push to optimize costs to improve the profit margin of the product business.

As a result, for the fiscal year, net sales totaled 4,731,632 thousand yen, operating profit totaled 428,127 thousand yen, ordinary profit totaled 478,934 thousand yen, and profit attributable to owners of parent totaled 322,688 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.

In the first half of the period under review, net sales were in line with the forecast made at the beginning of the period, as the Company captured demand related to support for in-house production of data utilization and the establishment of data analysis infrastructure, despite the impact of new orders not reaching the forecast made in the fourth quarter of the 19th fiscal year.

The segment profit margin declined temporarily in the first quarter due to a large unprofitable project (delivery completed in August 2022) that was postponed from the 19th fiscal year, but has been recovering since the second quarter of the current consolidated fiscal year.

As a result, net sales totaled 1,621,417 thousand yen (up 15.6% year-on-year) and segment income totaled 555,331 thousand yen (down 9.1% year-on-year).

(Product Business)

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

In the first half of the period under review, sales at Brainpad Inc. have been recovering due to the concentration of management resources on core products and the strengthening of sales and marketing process functions and sales capabilities through the promotion of departmental collaboration. In addition, TimeTechnologies Ltd. performance from October 1, 2022 to December 31, 2022 is reflected in its consolidated results for the first half of the current fiscal year, contributing to the increase in sales.

In terms of profit, while the segment profit margin of Brainpad Inc. on a non-consolidated basis is on a recovery trend, the segment profit margin is almost the same level as the first quarter consolidated accounting period due to the amortization of goodwill resulting from the consolidation of TimeTechnologies Ltd.

As a result, net sales totaled 1,462,490 thousand yen and segment income totaled 242,762 thousand yen.

(2) Explanation of Financial Position

① Analysis of Financial Position

(Assets)

Current assets at the end of the second quarter of the current fiscal year totaled 3,744,110 thousand yen. The main breakdown was cash and deposits of 2,245,668 thousand yen and notes and accounts receivable of 1,166,976 thousand yen.

The balance of noncurrent assets was 2,501,001 thousand yen. The main breakdown was 863,719 thousand yen in investments and other assets, 851,380 thousand yen in goodwill, and 571,844 thousand yen in tangible fixed assets.

As a result, total assets amounted to 6,245,111 thousand yen.

(Liabilities)

Current liabilities at the end of the second quarter totaled 1,196,710 thousand yen. The main breakdown is as follows: accrued expenses, 255,926 thousand yen; other current liabilities, 193,710 thousand yen; income taxes payable, 189,023 thousand yen; accounts payable-trade, 168,505 thousand yen; accounts payable-other, 157,140 thousand yen; and contract liabilities, 123,210 thousand yen.

The balance of noncurrent liabilities was 149,456 thousand yen. The main breakdown was asset retirement obligations of 147,818 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 second quarter of the current consolidated fiscal year totaled 4,898,943 thousand yen. The main breakdown is retained earnings of 4,608,062 thousand yen.

As a result, the equity ratio was 78.4%.

② Analysis of Cash Flows

Cash and cash equivalents ("cash") at the end of the second quarter of the current consolidated fiscal year amounted to 2,245,668 thousand yen.

The status of each cash flow and its factors are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 467,654 thousand yen. This was mainly due to income before income taxes and minority interests of 478,934 thousand yen, depreciation and amortization of 123,763 thousand yen, and an increase in accounts receivable of 157,443 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities was 828,221 thousand yen. This was mainly due to 894,145 thousand yen used for the purchase of investments in subsidiaries resulting in a change in the scope of consolidation.

(Cash flows from financing activities)

Net cash used in financing activities was 302,003 thousand yen. This was mainly due to purchase of treasury stock amounting to 301,999 thousand yen.

(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.

Under these circumstances, we believe that demand for the use of "data," which is the blood of digital transformation, will continue to increase.

Therefore, we will continue to expand and strengthen our organizational structure to demonstrate our "comprehensive data utilization capabilities" and aim to achieve sales growth of around 20% in the final year of the current medium-term management plan (four years from FY6/2020 to FY6/2023).

While first-half performance was stronger than expected in the 19th fiscal year, the impact of new orders not reaching expectations in the fourth quarter is expected to continue to a certain extent in the first half of the current fiscal year, and the forecast for the current fiscal year is therefore weighted toward the second half in terms of both sales and profit.

Since the performance for the first half of the current fiscal year is progressing as expected at the beginning of the period, there are no revisions to the consolidated earnings forecast announced on August 10, 2022 at this time.

(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 December 31, 2022

Assets	
Current assets	
Cash and deposits	2,245,668
notes receivable, accounts receivable	1,166,976
work in progress	64,771
prepaid expenses	248,503
Other	18,191
Total current assets	3,744,110
fixed assets	
property, plant and equipment	571,844
Intangible fixed assets	
software	194,021
Goodwill	851,380
Other	20,035
Total intangible fixed assets	1,065,437
Investments and other assets	863,719
Total fixed assets	2,501,001
total assets	6,245,111

(Unit: thousand yen)

As of December 31, 2022

Liabilities	
current liabilities	
accounts payable	168,505
arrears	157,140
accrued expenses	255,926
Income taxes payable	189,023
contract liabilities	123,210
Allowance for bonuses	109,192
Other	193,710
Total current liabilities	1,196,710
fixed liabilities	
Asset retirement obligations	147,818
Other	1,638
Total long-term liabilities	149,456
total liabilities	1,346,167
Total net assets	
capital stock	
capital stock	597,809
Capital surplus	574,509
Retained earnings	4,608,062
treasury stock	△878,841
Total shareholders' equity	4,901,541
Valuation and translation adjustments	
Net unrealized gains (losses) on available-for-sale securities, net of taxes	△2,597
Total valuation and translation adjustments	△2,597
Total net assets	4,898,943
Total liabilities and net assets	6,245,111

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

(Unit: thousand yen)

	Six months ended December 31, 2022
Net sales	4,731,632
cost of sales	2,805,310
Gross profit	1,926,322
Selling, general and administrative expenses	1,498,194
Operating income	428,127
Non-operating income	
interest income, Dividends received	6
Sales incentives received	5,479
Subsidy income	33,154
Equity in earnings of affiliates	18,020
Other	5,795
Total non-operating income	62,456
Non-operating expenses	
foreign exchange loss	841
Equity in losses of affiliates	8,744
Loss on investment partnership management	2,008
Fees and commissions	54
Other	11,649
Ordinary income	478,934
Income before income taxes and minority interests	478,934
Corporate, inhabitant and enterprise taxes	146,087
Income taxes-deferred	10,158
Total income taxes	156,246
Net income	322,688
Net income attributable to noncontrolling interests	—
Net income attributable to owners of parent	322,688

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

(Unit: thousand yen)

	Six months ended December 31, 2022
Net income	322,688
Other comprehensive income	
Net unrealized gains (losses) on available-for-sale securities, net of taxes	△15,727
Total other comprehensive income	△15,727
Comprehensive income	306,960
(Breakdown)	
Comprehensive income attributable to parent company shareholders	306,960
Comprehensive income attributable to noncontrolling interests	—

(3) Quarterly Consolidated Statements of cash flow

(Unit: thousand yen)

Six months ended December 31,
2022

Cash flows from operating activities	
Income before income taxes and minority interests	478,934
Depreciation and amortization	123,763
Amortization of goodwill	44,809
Increase (decrease) in accrued bonuses	37,597
Interest and dividend income	△6
Equity in (earnings) losses of affiliated companies	△18,020
(Gain) loss on investments in partnership	8,744
Decrease (increase) in trade receivables	△157,443
(Increase) decrease in inventories	26,802
Increase (decrease) in notes and accounts payable-trade	53,634
Increase (decrease) in accrued liabilities	△67,808
Increase (decrease) in accrued expenses	44,635
Increase (decrease) in contract liabilities	△113,786
Other	80,469
subtotal	542,327
Interest and dividends received	6
Income taxes paid	△74,679
Cash flows from operating activities	467,654
Cash flows from investing activities	
Purchases of property, plant and equipment	△79,351
Payments for acquisition of intangible assets	△30,800
Purchase of investments in subsidiaries resulting in change in scope of consolidation	△894,145
Proceeds from collection of guarantee deposits	199,995
Payments for fulfillment of asset retirement obligations	△23,920
Cash flows from investing activities	△828,221
Cash flows from financing activities	
Payments for purchase of treasury stock	△301,999
Other	△4
Cash flows from financing activities	△302,003
Effect of exchange rate changes on cash and cash equivalents	—
Net increase (decrease) in cash and cash equivalents	△662,571
Cash and cash equivalents at beginning of year	2,908,239
Cash and cash equivalents at end of year	2,245,668

(4) 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.)

Fiscal year ended June 30, 2023 (July 1, 2022 - December 31, 2022)

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	3,269,141	1,462,490	4,731,632	—	4,731,632
Intersegment sales and transfers	—	—	—	—	—
Total	3,269,141	1,462,490	4,731,632	—	4,731,632
Segment profit (loss)	1,156,797	242,762	1,399,559	△971,431	428,127

Notes:

1. Adjustment of segment income includes corporate expenses of 971,431 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 896,189 thousand yen in the first half of the current consolidated fiscal year as a result of this event.

The amount of goodwill is a tentatively calculated amount because the allocation of purchase price has not been completed in the first half of the current consolidated fiscal year.

(Significant gain on negative goodwill)

Not applicable.