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November 11, 2022

Consolidated Financial Results for the Three Months Ended September 30, 2022 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 3655
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 Scheduled date to file quarterly securities report: November 11, 2022
 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 three months ended September 30, 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	%
Three months ended								
September 30, 2022	2,269	12.2	191	-42.0	216	-33.2	148	-28.2
September 30, 2021	2,023	28.2	330	197.1	323	188.9	207	173.7

Note: Comprehensive income For the three months ended September 30, 2022: ¥156 million [-24.4%]
 For the three months ended September 30, 2021: ¥207 million [173.7%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended				
September 30, 2022	6.82		-	
September 30, 2021	9.35		-	

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			
September 30, 2022	5,837	4,691	80.4
September 30, 2021	-	-	-

Reference: Equity As of September 30, 2022: ¥4,691 million
 As of September 30, 2022: ¥- 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 September 30, 2022	-	0.00	-	0.00	0.00
Fiscal year ending September 30, 2022	-				
Fiscal year ending September 30, 2022 (Forecast)		0.00	-	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
First half-year	4,750	-	340	-	380	-	260	-	11.86
Full year	10,300	-	1,100	-	1,140	-	800	-	36.48

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 September 30, 2022	22,300,596 shares
As of September 30, 2021	22,300,596 shares

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

As of September 30, 2022	646,494 shares
As of September 30, 2021	372,594 shares

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

Three months ended September 30, 2022	21,837,853 shares
Three months ended September 30, 2021	22,177,332 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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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. In addition, we did not prepare consolidated financial statements for the previous consolidated fiscal year because we no longer have any consolidated subsidiaries as a result of the absorption-type merger of Mynd Corporation, which was a consolidated subsidiary, on December 1, 2021. Therefore, a comparative analysis with the previous consolidated fiscal year is not performed for "(2) Explanation of Financial Position".

During the first quarter 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 quarter of the current fiscal year, net sales increased 12.2% from the same period of the previous fiscal year, due in part to the absence of new orders received in the fourth quarter of the 19th fiscal year and a waiting period before the start of large projects in the professional services business.

In terms of expenses, despite the intensifying competition for human resources in the IT industry, our group's hiring progressed smoothly and various expenses, including employee personnel costs, were in line with expectations. The number of consolidated employees at the end of the first quarter increased by 92 (21.1% increase) compared with the end of the same period of the previous year. The most important issue for the current consolidated fiscal year is to achieve sales growth in the second half of the year that matches the increase in the number of employees.

As a result, for the fiscal year, net sales totaled 2,269,949 thousand yen (up 12.2% year-on-year), operating profit totaled 191,311 thousand yen (down 42.0% year-on-year), ordinary profit totaled 216,547 thousand yen (down 33.2% year-on-year), and profit attributable to owners of parent totaled 148,903 thousand yen (down 28.2% year-on-year).

The following is a summary of results by segment.

As a result of the reorganization effective July 1, 2022, we have reviewed our business segmentation method, and as a result, a part of the former "Professional Services Business" has been changed to "Product Business" from this quarter.

Year-on-year comparisons below are calculated based on the figures for the same period of the previous fiscal year, which have been reclassified into the new segment classifications.

(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 quarter of the current fiscal year, sales increased 15.6% from the same period of the previous year due to new orders that did not reach expectations in the fourth quarter of the 19th fiscal year, and a waiting period before the start of large projects.

This sales amount includes sales from a large unprofitable project that was postponed from the 19th fiscal year, but the project did not contribute to profit. In addition, the number of employees in this business increased by 62 (25.8%) from the end of the same period of the previous year due to the aforementioned progress in hiring, leading to a temporary decline in profit margin.

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.

During the quarter, we concentrated management resources on core products and strengthened sales and marketing process functions and sales capabilities by promoting interdepartmental collaboration. As a result, we achieved the first growth in stock sales (sales that generate stable revenue in proportion to the number of customers) in three quarters.

In terms of expenses, while higher purchase prices of overseas products and cloud usage fees due to the rapid depreciation of the yen compared to the same quarter of the previous year weighed on expenses, we focused on appropriate cost control and maintained the segment profit margin at the fourth quarter of the 19th fiscal year.

As a result, net sales totaled 648,532 thousand yen (up 4.5% year-on-year) and segment income totaled 110,918 thousand yen (down 32.3% year-on-year).

(2) Explanation of Financial Position

(Assets)

Current assets at the end of the first quarter of the current consolidated fiscal year totaled 3,322,550 thousand yen. The main breakdown was cash and deposits of 1,753,725 thousand yen, notes and accounts receivable of 1,072,856 thousand yen, prepaid expenses of 273,641 thousand yen, and guarantee deposits of 107,739 thousand yen.

The balance of noncurrent assets was 2,515,045 thousand yen. The main breakdown was goodwill of 896,189 thousand yen, investments and other assets of 798,456 thousand yen, property, plant and equipment of 589,462 thousand yen, and software of 226,064 thousand yen.

As a result, total assets amounted to 5,837,595 thousand yen.

(Liabilities)

Current liabilities at the end of the first quarter of the current consolidated fiscal year totaled 996,025 thousand yen. The main breakdown was accrued expenses of 218,937 thousand yen, other current liabilities of 201,587 thousand yen, accrued expenses of 182,782 thousand yen, contract liabilities of 143,238 thousand yen, accounts payable-trade of 113,362 thousand yen, income taxes payable of 58,691 thousand yen, and accrued bonuses of 54,325 thousand yen.

The balance of noncurrent liabilities was 150,394 thousand yen. The main breakdown was asset retirement obligations of 147,744 thousand yen.

As a result, total liabilities amounted to 1,146,419 thousand yen.

(Net assets)

Total net assets as of the end of the first quarter of the current consolidated fiscal year totaled 4,691,175 thousand yen. The main breakdown is retained earnings of 4,462,692 thousand yen.

As a result, the equity ratio was 80.4%.

(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 consolidated business results for the first quarter of the current fiscal year are progressing as expected at the beginning of the period, there are no revisions to the consolidated business 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.)

Quarterly Financial Statements and Major Notes

(1) Quarterly Balance Sheet

(Unit: thousand yen)

As of September 30, 2022

Assets	
Current assets	
Cash and deposits	1,753,725
notes receivable, accounts receivable	1,072,856
work in progress	39,110
prepaid expenses	273,641
Guarantee deposits	107,739
Other	75,476
Total current assets	3,322,550
fixed assets	
property, plant and equipment	589,462
Intangible fixed assets	
software	226,064
Goodwill	896,189
Other	4,872
Total intangible fixed assets	1,127,126
Investments and other assets	798,456
Total fixed assets	2,515,045
total assets	5,837,595

(Unit: thousand yen)

As of September 30, 2022

Liabilities	
current liabilities	
accounts payable	113,362
arrears	182,782
accrued expenses	218,937
Income taxes payable	58,691
contract liabilities	143,238
Allowance for bonuses	54,325
Allowance for office relocation expenses	23,100
Other	201,587
Total current liabilities	996,025
fixed liabilities	
Asset retirement obligations	147,744
Other	2,649
Total long-term liabilities	150,394
total liabilities	1,146,419
Total net assets	
capital stock	
capital stock	597,809
Capital surplus	578,813
Retained earnings	4,462,692
treasury stock	△955,897
Total shareholders' equity	4,683,417
Valuation and translation adjustments	
Net unrealized gains (losses) on available-for-sale securities, net of taxes	7,757
Total valuation and translation adjustments	7,757
Total net assets	4,691,175
Total liabilities and net assets	5,837,595

(2) Quarterly Statements of Income
(First quarter cumulative period)

(Unit: thousand yen)

	Three months ended September 30, 2021	Three months ended September 30, 2022
Net sales	2,023,931	2,269,949
cost of sales	1,082,760	1,366,529
Gross profit	941,171	903,419
Selling, general and administrative expenses	611,142	712,108
Operating income	330,028	191,311
Non-operating income		
interest income, Dividends received	6	6
outsourcing fee	2,727	—
Sales incentives received	1,232	1,050
Subsidy income	1,013	28,386
Equity in earnings of affiliates	—	3,800
Other	5,200	3,258
Total non-operating income	10,180	36,502
Non-operating expenses		
foreign exchange loss	251	518
Equity in losses of affiliates	547	—
Loss on investment partnership management	878	8,744
Fees and commissions	14,555	2,003
Other	8	0
Total non-operating expenses	16,241	11,266
Ordinary income	323,967	216,547
Income before income taxes and minority interests	323,967	216,547
Corporate, inhabitant and enterprise taxes	84,092	31,693
Income taxes-deferred	32,515	35,950
Total income taxes	116,608	67,644
Net income	207,358	148,903
Net income attributable to noncontrolling interests	—	—
Net income attributable to owners of parent	207,358	148,903

(3) Notes to Financial Statements

(Note on going concern assumption)

Not applicable.

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

We repurchased 273,900 shares of treasury stock based on the resolution of the Board of Directors meeting held on August 10, 2022. As a result, treasury stock increased by 299,995 thousand yen during the first quarter of the current consolidated fiscal year, and treasury stock totaled 955,897 thousand yen at the end of the first quarter 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, 2022 (July 1, 2021 - September 30, 2021)

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	1,403,131	620,799	2,023,931	—	2,023,931
Intersegment sales and transfers	—	—	—	—	—
Total	1,403,131	620,799	2,023,931	—	2,023,931
Segment profit (loss)	611,079	163,927	775,007	△444,979	330,028

Notes:

1. Adjustment of segment income includes corporate expenses of 444,979 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)

Not applicable.

(Significant gain on negative goodwill)

Not applicable.

(Segment Information, etc.)

Fiscal year ended June 30, 2023 (July 1, 2022 - September 30, 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	1,621,417	648,532	2,269,949	—	2,269,949
Intersegment sales and transfers	—	—	—	—	—
Total	1,621,417	648,532	2,269,949	—	2,269,949
Segment profit (loss)	555,331	110,918	666,249	△474,938	191,311

Notes:

1. Adjustment of segment income includes corporate expenses of 474,938 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 Time Technologies, Inc. and its inclusion in the scope of consolidation. The amount of goodwill increased by 896,189 thousand yen in the first quarter 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 acquisition cost has not been completed in the first quarter of the current consolidated fiscal year.

(Significant gain on negative goodwill)

Not applicable.

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

Effective from the first quarter of the current fiscal year, the Company has reviewed its business segment classification method in accordance with the organizational changes effective July 1, 2022, and has changed a part of the former "Professional Services Business" to "Product Business."

The segment information for the first quarter of the previous fiscal year is presented based on the classification method after the change.