

Financial results for the fiscal year ending June 2023

August 10, 2023

BrainPad Inc.



Index

■ **Executive Summary**

■ **Supplement to FY23 Consolidated Financial Results and FY24 Consolidated Earnings Forecast**

■ **Supplemental Segment Results**

■ **Initiatives for FY24**

- Please refer to the separate document "[Qualitative Information Only] Corporate Profile and Medium-Term Management Plan for the Fiscal Year Ending June 30, 2023 (Fiscal Year Ending June 30, 2024 - Fiscal Year Ending June 30, 2026)" released today for the corporate profile and new medium-term management plan of our group.

[About this document]

- "FYXX" is used in some parts of this document to refer to the "fiscal year ending June 30, 20XX".
- We have not prepared consolidated financial statements for FY22. For the sake of convenience, this document compares non-consolidated figures for FY22 with consolidated figures for FY23.
- Abbreviations of business segment names are shown as follows
 - Professional services business ... PF business
 - * PF business provides data analysis, consulting including system development, and human resources support to help client companies utilize data.
 - Product business ... PD business
 - * PD business is a business that supports the use of data by client companies through the provision of in-house and third-party products.

Executive Summary

FY2023 Results (Consolidated)

Net sales
9,798
million yen
YoY +14.4%

Operating
income
681
million yen
YoY -40.6%

EBITDA Margin
11.0%

- Net sales increased 14.4%, partly due to M&A effects
- Aggressive recruiting activities have increased the number of employees
- On the other hand, the paid utilization rate of the PF business declined due to delays in responding to intensifying market competition.
- Profit decreased due to higher costs associated with organizational expansion, as well as one-time costs.

FY24 Forecast (Consolidated)

Net sales
11,000
million yen

Operating
income
1,100
million yen
YoY +61.6%

EBITDA Margin
13.6%

- Continue to invest in growth, including generative AI, but steer toward "profit-oriented" management
- Aim for significant improvement in profit level by setting the improvement of paid utilization ratio as the top priority by strengthening sales structure and solutions

Shareholder returns

Dividend

Dividend policy: Achieve "stable and continuous" dividends
FY23 Year-End Dividend: **8 yen** per share
FY24 Year-End Dividend Forecast: 8 yen per share

Acquisition of treasury stock

FY23 results: Total amount of approx. **500 million yen**
(Aug-Sep 2022 = approx. 300 million yen, May-June 2023 = approx. 200 million yen)
FY24 plan: To be determined based on market environment and stock price level

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Due to higher revenue and lower profit in FY23, management shifted to a profit-oriented approach from FY24.

【Reasons for the increase in sales and profit in FY23】

- Decline in profit margin due to sales not growing as planned and some one-time costs (described below on p. 15) in relation to higher employee personnel costs associated with organizational expansion.

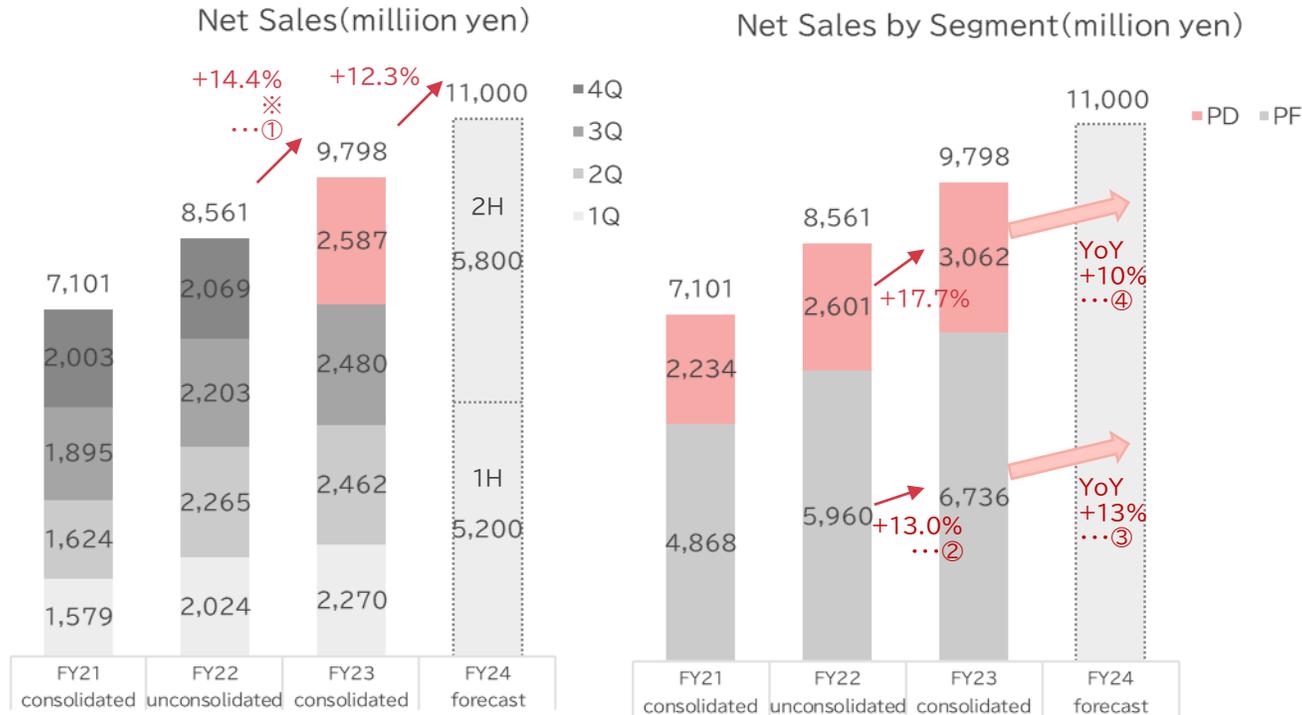
【Key points of the consolidated earnings forecast for FY24】

- In the new medium-term management plan (FY24-26), the Company will steer away from the conventional "growth through organizational expansion" to "profit-oriented management"
- In FY24, the most important tasks are to achieve an EBITDA margin of 13.6% and an operating margin of 10% as follows

	a FY22 unconsolidated	b FY23 consolidated	b/a-1 Percentage change	c FY24 Forecast	c/b-1 Percentage change
Net sales	8,561	9,798	14.4%	11,000	12.3%
EBITDA Margin	—	11.0%	—	13.6%	—
Operating Profit [Operating Profit ratio]	1,145 [13.4%]	681 [6.9%]	-40.6% —	1,100 [10.0%]	61.6% —
Ordinary Profit	1,167	752	-35.5%	1,140	51.5%
Profit attributable to owners of parent	803	515	-35.9%	750	45.6%

Sales Situation

FY23 achieved 14.4% revenue growth, partly due to M&A effects, and FY24 plans over 12% growth



※Effect of consolidation of TimeTechnologies 320 million yen (+3.7%)

【FY23 Results】

- Net sales increased by 14.4% year-on-year (left chart ①), of which 3.7% was the effect of M&A.
- The main reason why sales did not reach the initial plan (103 million yen in sales) was that the sales growth rate of the PF business fell short of the plan due to the following reasons (left chart ②).
 - Sales contraction in certain large projects that were not anticipated at the beginning of the period.
 - New orders did not proceed as expected.

【FY24 Earnings Forecast】

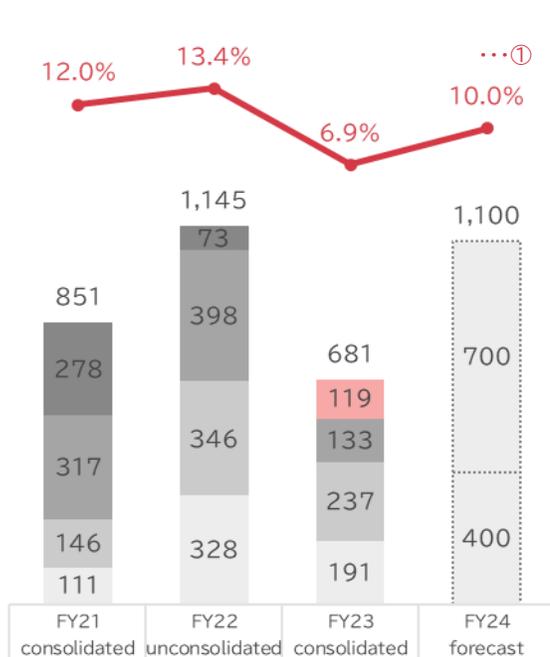
- Emphasis on profit margin recovery rather than sales growth
- In the PF business, if the paid utilization ratio of existing personnel can be steadily increased, growth of more than 13% y-o-y is expected to be possible without aggressive hiring (left chart ③)
- In the PD business, “Ligla” a product of a consolidated subsidiary, is expected to drive sales growth (left chart ④).

Given the factors behind the decline in profit margin in FY23, focus on "profit margin per customer" in FY24.

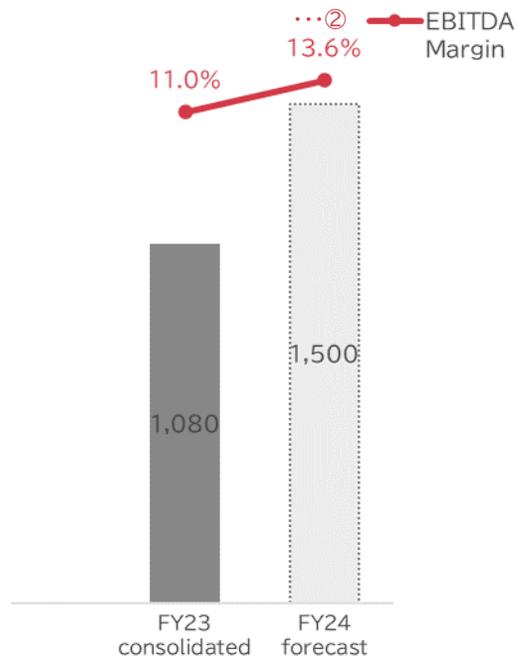
【FY23 Results】

- Factors behind the decline in profit margin are as follows
 - Lower-than-planned sales in the PF business, resulting in a decline in the paid-per-use ratio
 - Occurrence of projects with high degree of difficulty and low profit margins
 - Provision of allowance for contract losses related to multi-year cloud computing contracts in the PD business
 - Amortization of goodwill associated with M&A and management integration expenses (outsourcing expenses) for the current fiscal year only

Operating Profit(million yen)



EBITDA(million yen) ※



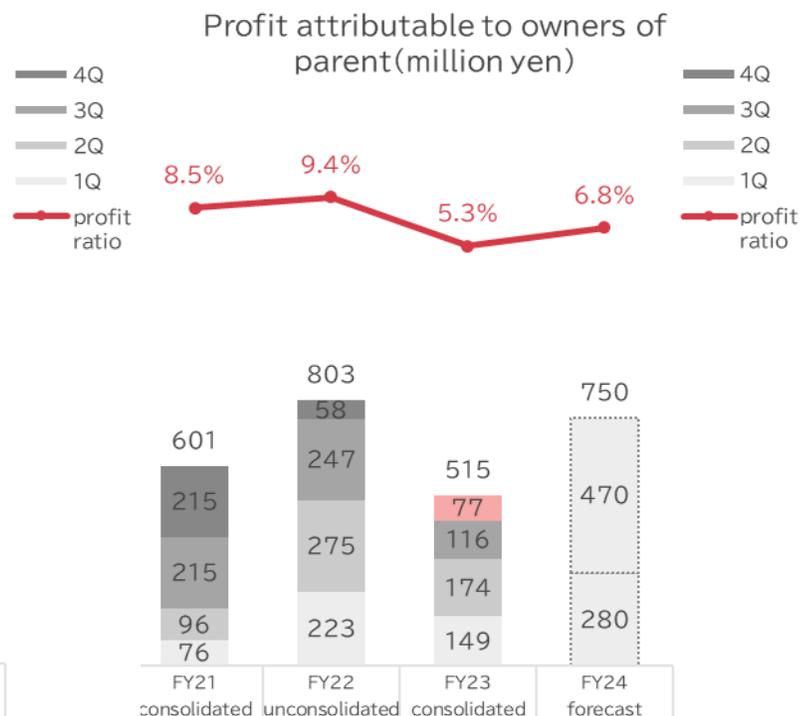
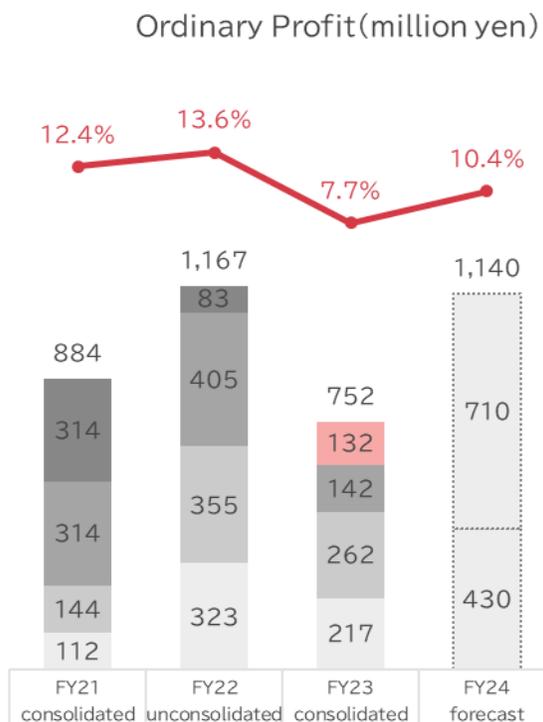
※ EBITDA
 = Operating income
 + Depreciation and amortization
 + Amortization of goodwill
 + Amortization of customer-related assets

【 Forecasts for FY24】

- From FY24 onward, focus on "improving profit margin per customer"
- Target EBITDA margin of 13.6% and operating margin of 10% by promoting the following (left chart ① and ②)
 - Improvement of paid-in-use ratio in PF business
 - Improvement of profit margin in PD business
 - Selection and concentration of sales and marketing investments

Ordinary Income and Net Income

Non-operating income/loss and extraordinary income/loss incurred in FY23



【FY23 Results *Only those over 10 million yen】

- Non-operating income
 - Subsidy income related to R&D activities : 37.9 million yen
 - Equity in earnings of affiliates : 30.3 million yen
- Non-operating expenses
 - Loss on investment partnership management : 11.2 million yen
- Extraordinary income
 - Gain on sales of investment securities : 41.4 million yen

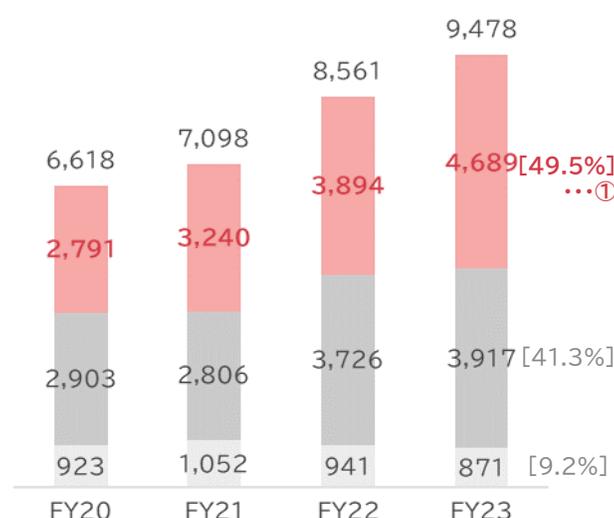
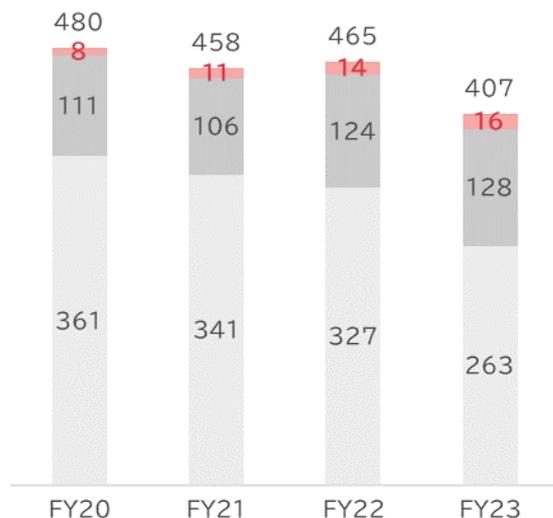
【FY24 forecast】

- Currently, non-operating income for FY24 is expected to include subsidy income associated with R&D activities.

Sales per client are steadily increasing, and the challenge is to improve order efficiency and quality.

Number of customers by sales size (unconsolidated)

Sales composition ratio by sales size (unconsolidated)



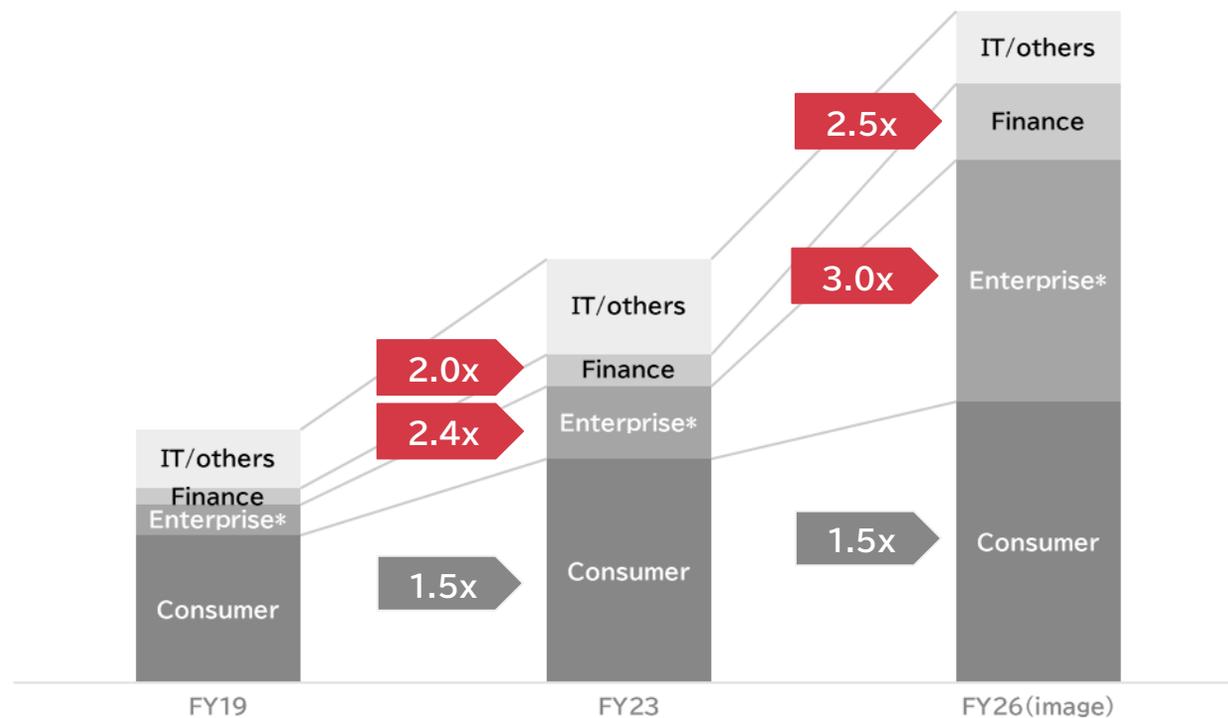
■ Less than 10M ■ More than 10 to 100M ■ More than 100M

1M=1million yen

- Steady progress has been made in increasing the size of projects, which we have been working on for some time.
 - The ratio of projects with annual sales of 100 million yen or more to total sales has been increasing year by year.
 - FY23 results (non-consolidated): 49.5% (left chart ①)
- The results of the selection and concentration of sales and marketing activities through the replacement of client companies due to the impact of Corona were achieved.
- Going forward, we will work to resolve the following new issues that have arisen as a result of the increase in the size of projects
 - Lengthening of lead time until orders are received (increase in sales costs and waiting time for personnel)
 - Lower profit margins on difficult projects (quality issues arising from challenges)

etc.

Progress in business expansion into "manufacturing and distribution industry" and "financial industry" as promoted in the new medium-term management plan



*Enterprise: Mainly manufacturing and distribution

- As part of the growth strategy of the new medium-term management plan, the company has set forth a "review of its industrial portfolio" and is moving to break away from its bias toward the retail and consumer service industries and to expand into the manufacturing and distribution industry and the financial industry.
- In FY23, we have already achieved expansion in both industries.
- Presenting case studies related to various industries

[Manufacturing and Distribution]
Brainpad and Kirin Brewery to launch "Manufacturing Planning Application" in July as the second phase of the "MJ (Creating Future Supply and Demand) Project" to promote DX of SCM using ICT.

<https://www.brainpad.co.jp/news/2023/07/04/19907>

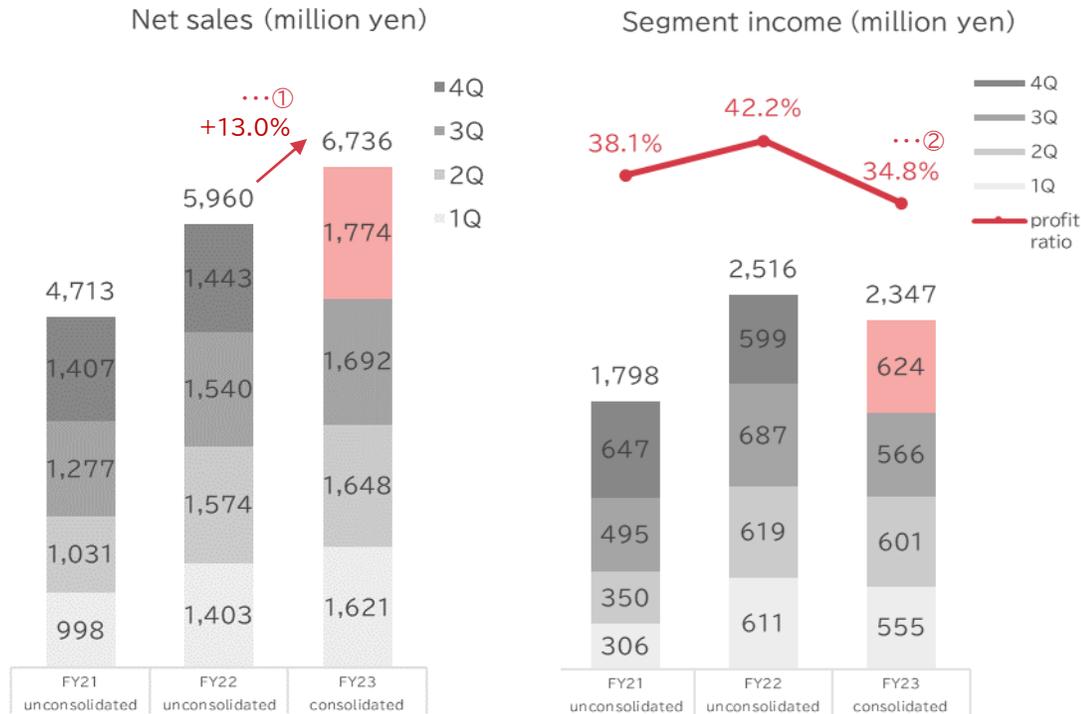
[Finance]
Brainpad becomes Japan Post Bank's strategic partner for "DX Promotion"

<https://www.brainpad.co.jp/news/2022/10/13/18267>

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Further differentiation of services is needed to recover paid utilization rate, which declined in FY23



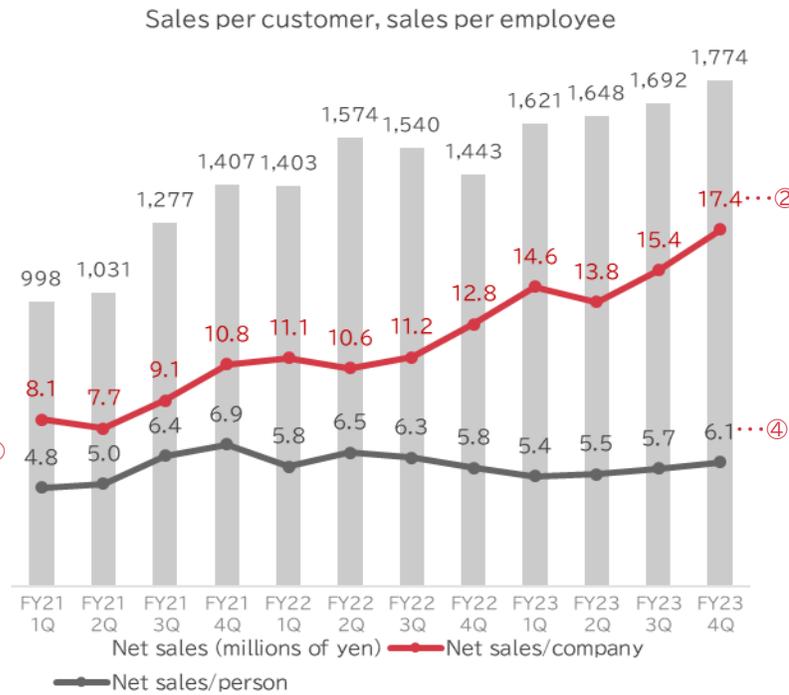
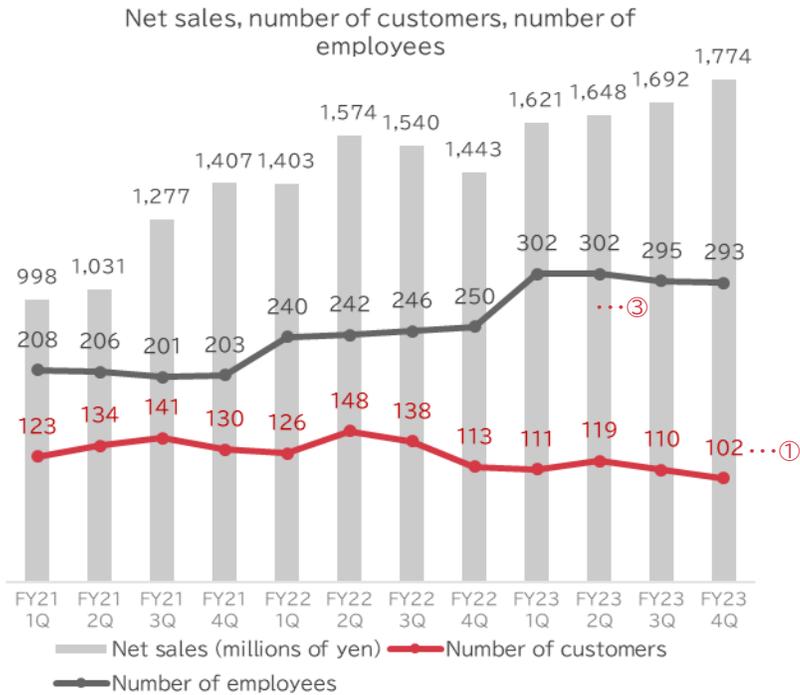
【Net sales】

- In FY23, sales grew steadily each quarter, but did not reach our planned sales growth rate (left chart ①).
- The main reason is that we have not been able to regain the ideal balance between the number of employees and sales since the second half of FY22.
- Looking forward, we recognize the need to improve order speed, strengthen our proposal capabilities and provide more differentiated services in response to changes in the DX market and an increase in inquiries from large companies.

【Segment profit】

- The decline in profit margin (left chart ②) is due to the following factors, in addition to lower sales
 - The Company is taking on more challenging projects as it continues to replace its client companies.
 - Upfront investment in verification and development of generative AI
- In addition, the high growth rate of system development projects involving outsourcing as part of the FY23 sales structure also contributed to the decline in the overall profit margin.

Success in increasing the size of projects and raising the prices offered; the next challenge is to increase the speed of orders



【Number of Clients】

- We are not aiming for an increase in the number of clients, but are focusing on increasing the intimacy with our clients, and on making projects longer and larger in scale (left chart ①).
- Sales per customer are steadily increasing in line with the above aims(left chart ②).

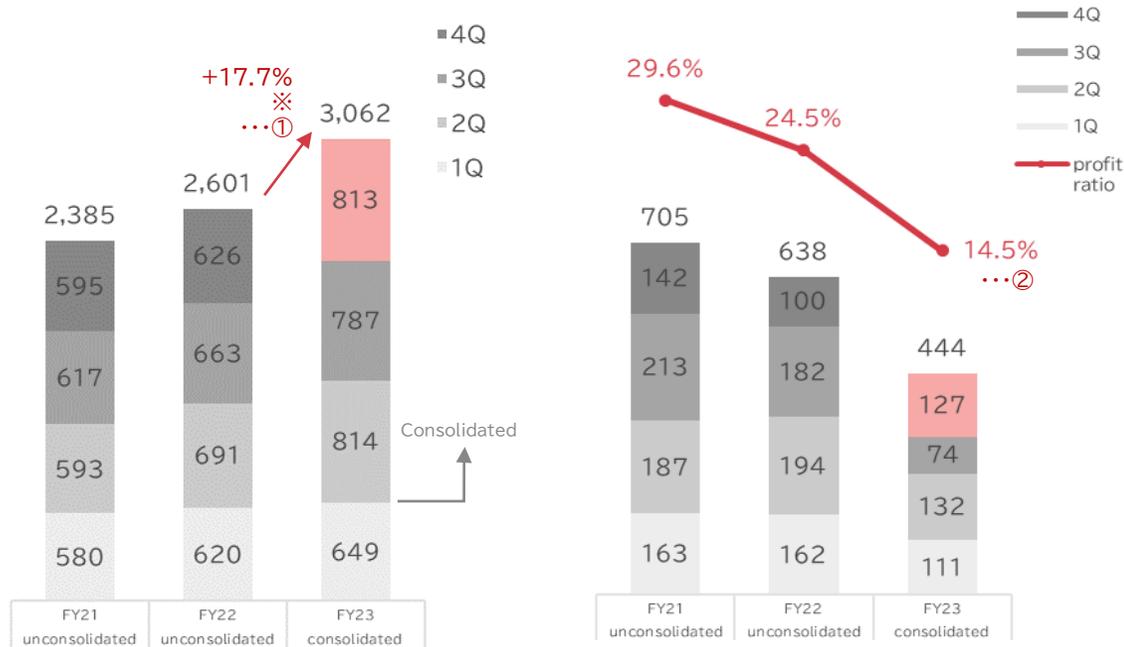
【Number of employees】

- The number of mid-career hires has already been controlled since 2Q FY23 (left chart ③)
- The main reason for the low sales per employee in FY23 (left chart ④) was the decline in the paid utilization ratio, not the decline in the price offered
- In FY23, upfront investment was made in the verification and development of generative AI to strengthen the ability to generate projects in the future.

Sales increased due to M&A effects, but profit margin declined due to M&A-related expenses

Net sales (million yen)

Segment income (million yen)



※Effect of consolidation of TimeTechnologies 320 million yen (+3.7%)

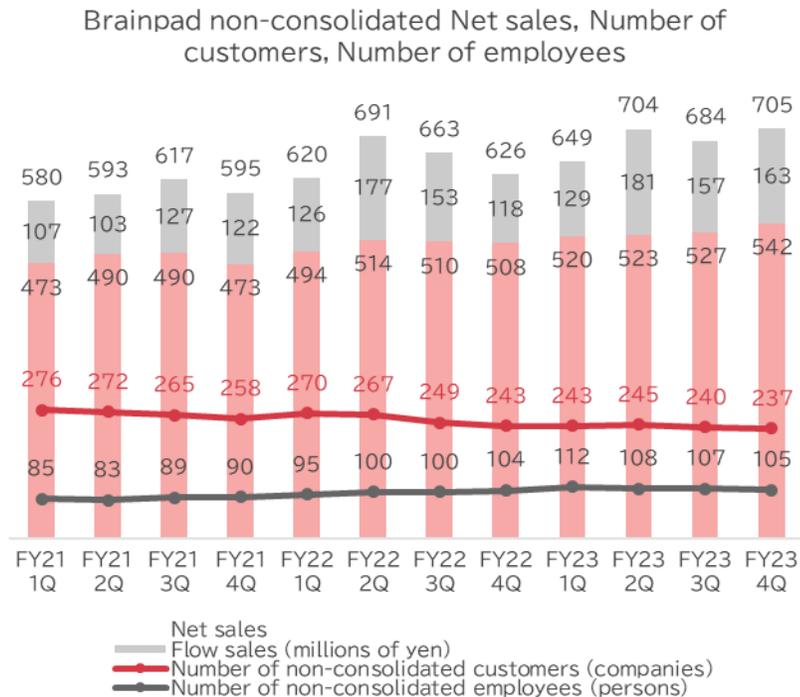
【 Net sales 】

- In FY23, sales increased due to M&A effects from 2Q onward (left chart ①)

【Segment profit 】

- Factors for lower profit margin in FY23 (left chart ②)
 - Allowance for contract losses : 64.7 million yen (one-time)
 - M&A-related expenses
 - Business integration costs (outsourcing expenses): approx. 100 million yen (as of FY23)
 - Amortization of goodwill : 98 million yen
 - Amortization of customer-related assets : 52 million yen
 - Other development man-hours invested in efforts to eliminate technical liabilities

Brainpad alone has recovered to stable growth; number of Ligla accounts is increasing steadily

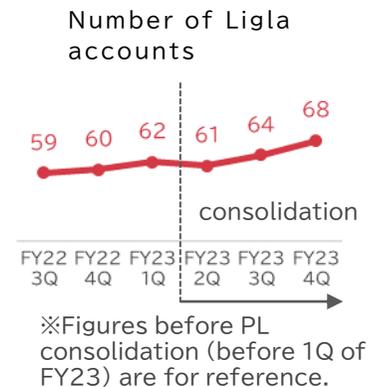


【Brainpad non-consolidated】

- In FY23, stock sales have been steadily increasing.
- The quarterly increase/decrease in sales in FY23 is due to the ups and downs of flow sales (mainly human resource support).
- The decline in the number of clients in recent years is due to the gradual termination of sales of non-focused products in order to concentrate resources on core products.
- We recognize that a steady increase in the number of accounts for our core products is necessary for future growth.

【About "Ligla" a product of a consolidated subsidiary】

- Since the start of consolidation, the number of accounts has steadily increased (right figure) (mutual customer referrals with Brainpad have also been effective).
- Although some initial customer cancellations via agencies occurred immediately after consolidation, cancellations have been curbed since then.
- We plan to increase the ratio of direct sales by leveraging the Group's customer base in the future.

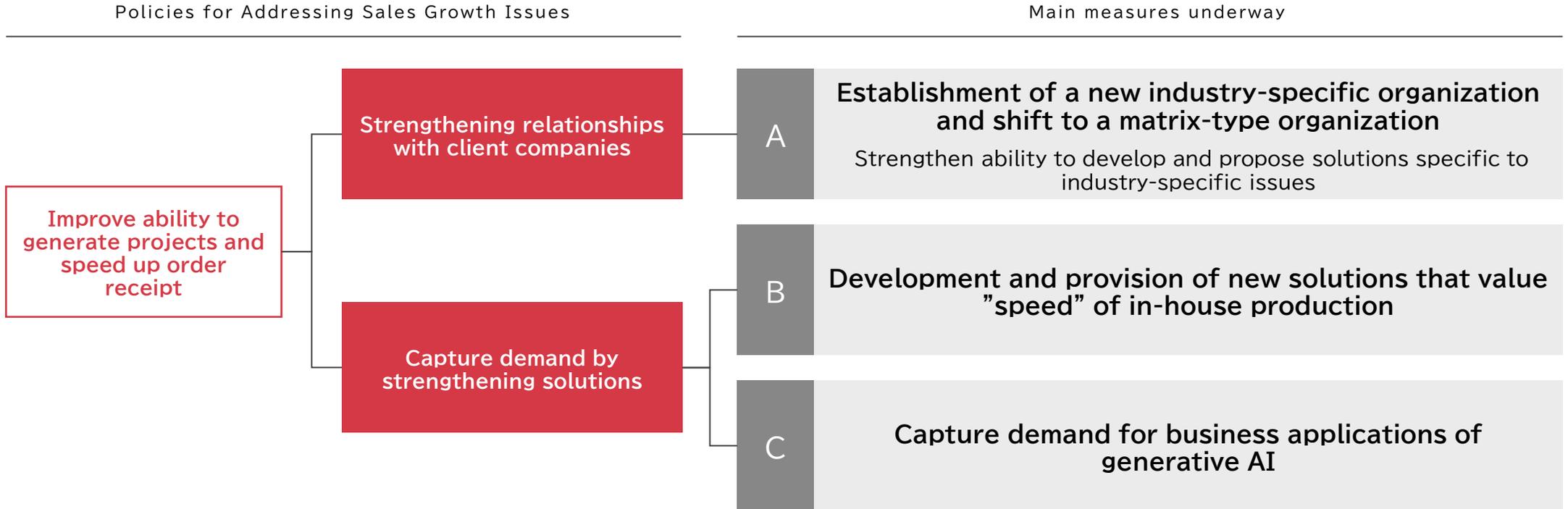


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Prioritize recovery of sales growth rate in PF business to shift to a highly profitable structure

- We have positioned the PF business as the foundation for our growth, and in FY23 we were able to achieve sales growth of 13.0% over the previous year.
- On the other hand, sales growth was not sufficient compared to the service delivery system (organization size), which was greatly expanded to avoid opportunity losses.
- In FY24, we will focus on the following measures to sharpen the good projects that led to sales growth in FY23 as industry-specific solutions and to increase the speed of sales accumulation (= increase the speed of orders)





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