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November 10, 2023

Consolidated Financial Results for the Three Months Ended September 30, 2023 (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 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 institutional investors and analysts)

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

1. Consolidated financial results for the three months ended September 30, 2023 (from July 1, 2023 to September 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, 2023	2,533	11.6	282	47.5	313	44.6	198	33.0
September 30, 2022	2,269	12.2	191	△42.0	216	△33.2	148	△28.2

Note: Comprehensive income For the three months ended September 30, 2023: ¥199 million [27.6%]
 For the three months ended September 30, 2022: ¥156 million [△24.4%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
September 30, 2023	9.22	-
September 30, 2022	6.82	-

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
September 30, 2023	6,371	4,923	77.3
September 30, 2022	6,516	4,895	75.1

Reference: Equity
 As of September 30, 2023: ¥4,923 million
 As of September 30, 2022: ¥4,895 million

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 June 30, 2023	-	0.00	-	8.00	8.00
Fiscal year ending June 30, 2024	-				
Fiscal year ending June 30, 2024 (Forecast)		0.00	-	8.00	8.00

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, 2024 (July 1, 2023 - June 30, 2024)

(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	5,200	9.9	400	△6.6	430	△10.2	280	△13.2	13.04
Full year	11,000	12.3	1,100	61.6	1,140	51.5	750	45.6	34.94

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

* **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

Excluded: - companies

(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: None

(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, 2023	22,300,596 shares
As of June 30, 2023	22,300,596 shares

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

As of September 30, 2023	833,069 shares
As of June 30, 2023	826,604 shares

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

Three months ended September 30, 2023	21,472,928 shares
Three months ended September 30, 2022	21,837,853 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. Supplementary material on quarterly financial results are disclosed on TDnet on the same day.

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Qualitative Information on Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2012

(1) Explanation of Operating Results

During the first quarter of the current fiscal year, the Japanese economy saw a recovery in inbound demand and a boost in demand for services during the summer season as restrictions on economic and social activities due to the Corona disaster were largely resolved, while the appreciation of raw materials due to the weak yen and rising wages to cope with labor shortages put pressure on corporate performance. The economy continues to recover moderately, mainly driven by domestic demand, as the restrictions on economic and social activities caused by the Corona disaster have largely been removed. While positive capital investment by companies boosted the domestic economy, the domestic ICT services market continued to grow solidly as demand related to the renewal of existing systems, migration to cloud computing, and the promotion of DX (Digital Transformation) expanded.

Under these circumstances, our group has made a major change in management policy and structure as of July 1, 2023, and is now implementing a three-year medium-term management plan (for the period ending June 30, 2024 to June 30, 2026), with the current consolidated fiscal year as the first year of the plan. The Group has positioned the three-year period of the plan as a "structural reform period" and is focusing on "rebuilding a foundation for growth through structural reforms and management evolution," and has set the recovery of the profit margin to an operating profit margin of 10% as the most important issue for the current consolidated fiscal year, while shifting the focus of management from achieving growth through the conventional expansion of organizational scale to profit-oriented management. In the current consolidated fiscal year, we have set the recovery of the profit margin to 10% of operating income as our most important issue.

In the first quarter of the current fiscal year, the Company began organizational management focused on improving profit margins per client in order to transform itself into a highly profitable structure by establishing a new industry-specific organization and transforming into a matrix organization as of July 1, 2023. In terms of sales, there was a boost from the addition of sales of consolidated subsidiary Time Technologies Corporation, which was consolidated only on the balance sheet in the same quarter of the previous year (see note), and in terms of profit, there was an improvement in profit margin due to activities to improve individual project income and expenditures and the elimination of one-time expenses that had been incurred in the previous fiscal year. In terms of profits, the improvement in profit margins due to activities to improve the profitability of individual projects and the elimination of one-time expenses that had been incurred in the previous fiscal year have resulted in a solid start to the fiscal year, with an increase in both sales and profits and an operating income margin of over 10%.

As a result, consolidated business results for the first quarter of the current fiscal year were as follows: net sales of 2,533,677 thousand yen (up 11.6% year-on-year), operating income of 282,258 thousand yen (up 47.5% year-on-year), ordinary income of 313,055 thousand yen (up 44.6% year-on-year), and net income attributable to parent company shareholders of 198,031 thousand yen (up 33.0% year-on-year). Net income attributable to owners of the parent amounted to 198,031 thousand yen (up 33.0% from the same period of the previous year).

(Note) The Company made Time Technologies, Inc. a consolidated subsidiary with a deemed acquisition date of the end of the previous consolidated first quarter. As a result, only the balance sheet of Time Technologies was consolidated in the first quarter of the previous fiscal year, and its financial results were not included in the quarterly consolidated statements of income and comprehensive income.

The following is a summary of results by segment.

(Professional Services Business)

The professional services business provides support for the use of data by client companies through data analysis, consulting including system development, and human resources support.

In the current fiscal year, the highest priorities for this business were to recover sales growth and improve paid-in utilization. In the first quarter of the current fiscal year, the sales side of the business grew 6.6% y-o-y, in line with the forecast made at the beginning of the term. In addition, at the beginning of the period, new graduates who joined the company in April of this year were fully assigned to this business, but the paid utilization ratio, including these new graduates, remained at the level of the previous quarter (the fourth quarter of the fiscal year ending June 30, 2023), and the profit margin showed moderate improvement compared to the previous fiscal year. During the three months ended June 30, 2023, the Company shifted to a

new organization, reformed its management approach by revising the way it manages project income and expenses, and focused on establishing and spreading this approach, as well as investing upfront in verification and development activities for generated AI to enhance future project creation capabilities. The effects of these efforts are expected to be reflected in an increase in the paid utilization ratio from the second quarter of the fiscal year.

As a result, net sales amounted to 1,728,769 thousand yen (up 6.6% year on year) and segment income amounted to 633,681 thousand yen (up 14.1% year on year).

(Product business)

The product business supports client companies in their use of data through the provision of in-house and third-party products.

In the current consolidated fiscal year, this business focused on improving profit margins at Brainpad on a non-consolidated basis and growing sales through "Ligla," developed and provided by consolidated subsidiary Time Technologies Inc. Sales for the first quarter of the fiscal year under review increased 24.1% y-o-y, in line with the forecast at the beginning of the period. This increase was driven by the addition of three months' worth of sales from Time Technologies Corporation, which was only consolidated on the balance sheet in the same quarter of the previous year. In addition, the segment profit margin showed improvement compared to the same quarter of the previous year due to the reallocation of personnel within this business to build a structure for the company's operations without a significant increase in the number of employees.

As a result, net sales amounted to 804,907 thousand yen (up 24.1% from the same period of the previous year) and segment income amounted to 183,102 thousand yen (up 65.1% from the same period of the previous year).

(2) Explanation of Financial Condition

(1) Analysis of Financial Condition

(Assets)

Current assets at the end of the first quarter of the current consolidated fiscal year totaled 3,920,520 thousand yen, a decrease of 220,944 thousand yen from the end of the previous consolidated fiscal year. This was mainly due to an increase of 30,891 thousand yen in other current assets and an increase of 22,875 thousand yen in work in process, while cash and deposits decreased by 270,432 thousand yen.

Fixed assets totaled 2,451,082 thousand yen, an increase of 76,281 thousand yen from the end of the previous fiscal year. This was mainly due to a decrease of 32,769 thousand yen in goodwill, 26,468 thousand yen in property, plant and equipment, and 25,551 thousand yen in software, while there was an increase of 172,080 thousand yen in investments and other assets.

As a result, total assets decreased 144,663 thousand yen from the end of the previous fiscal year to 6,371,603 thousand yen.

(Liabilities)

Current liabilities at the end of the first quarter amounted to 1,214,871 thousand yen, down 167,298 thousand yen from the end of the previous fiscal year. This was mainly due to a decrease of 132,379 thousand yen in income taxes payable, 49,997 thousand yen in provision for bonuses, 13,285 thousand yen in contract liabilities, and 10,303 thousand yen in provision for loss on order received, while other current liabilities increased 48,056 thousand yen.

The balance of noncurrent liabilities was 233,059 thousand yen, a decrease of 5,490 thousand yen from the end of the previous fiscal year. This was mainly due to a decrease of 5,564 thousand yen in other long-term liabilities.

As a result, total liabilities decreased by 172,789 thousand yen from the end of the previous fiscal year to 1,447,931 thousand yen.

(Net assets)

Total net assets at the end of the first quarter of the current consolidated fiscal year amounted to 4,923,672 thousand yen, an increase of 28,125 thousand yen from the end of the previous consolidated fiscal year. This was mainly due to an increase in retained earnings of 26,239 thousand yen.

As a result, the equity ratio was 77.3%.

(3) Explanation of consolidated earnings forecasts and other forward-looking information

The "Basic Policies for Economic and Fiscal Management and Reform 2023" announced by the Japanese government in June 2023 calls for "Acceleration of New Capitalism" and includes as measures to support capacity building through reskilling to strengthen investment in people and to respond to DX and generative AI for the formation of a digital society. The background to this is the lack of IT human resources in Japan. Behind this is the worsening shortage of IT human resources in Japan, and the reality is that many Japanese companies are facing a major dilemma: the more they rush into DX, the more dependent they are on external human resources, and the more they try to bring IT in-house, the more difficult it is to recruit human resources.

In light of this market environment and the Group's recent business conditions, the Group has announced its medium-term management plan (for the period ending June 30, 2024 to June 30, 2026), with the current consolidated fiscal year as the first year. Under the plan, the Group has shifted its focus from achieving growth by expanding the scale of its organization to profit-oriented management, with the emphasis on "rebuilding the foundation for growth through structural reforms and management evolution. The Company's full-year consolidated forecasts for the fiscal year ending June 30, 2024 are net sales of 11,000 million yen, operating income of 1,100 million yen, ordinary income of 1,140 million yen, and net income attributable to shareholders of the parent company of 750 million yen.

In the first quarter of the current consolidated fiscal year, while the sales side of the business remained in line with our initial forecast, the profit side of the business slightly exceeded the forecast at the beginning of the period. However, while sales are planned to be weighted toward the second half of the fiscal year, the paid utilization ratio of the professional services business, the top priority for the current fiscal year, has not fully recovered, and at this point, the above consolidated earnings forecast figures remain unchanged. (The forecasts are based on information available at the time of preparation and are subject to uncertainties. Therefore, actual results may differ from these forecasts due to changes in various factors, including the economic environment.)

Quarterly consolidated financial statements and major notes

(1) Quarterly Consolidated Balance Sheets

(Unit: thousand yen)

	As of June 30, 2023	As of September 30, 2023
Assets		
current assets		
cash on hand and in banks	2,506,556	2,236,123
Notes and accounts receivable-trade	1,285,911	1,299,357
work in progress	29,224	52,099
prepaid expenses	318,584	300,859
Other	1,188	32,080
Total current assets	4,141,465	3,920,520
fixed assets		
property, plant and equipment	535,471	509,003
Intangible fixed assets		
software	145,700	120,148
goodwill	557,079	524,310
Other	316,600	305,590
Total intangible fixed assets	1,019,380	950,050
Investments and other assets	819,948	992,029
Total fixed assets	2,374,800	2,451,082
total assets	6,516,266	6,371,603

(Unit: thousand yen)

	As of June 30, 2023	As of September 30, 2023
Liabilities		
current liabilities		
accounts payable	130,525	124,502
arrears	193,570	143,697
accrued expenses	204,637	251,144
Accrued income taxes	223,433	91,053
contract liabilities	194,618	181,333
Allowance for bonuses	109,564	59,567
Allowance for loss on orders received	17,926	7,623
Allowance for loss on contracts	64,714	64,714
Other	243,178	291,235
Total current liabilities	1,382,169	1,214,871
fixed liabilities		
Asset retirement obligations	147,965	148,039
Other	90,584	85,019
Total long-term liabilities	238,550	233,059
total liabilities	1,620,720	1,447,931
Total net assets		
capital stock		
capital stock	597,809	597,809
Capital surplus	574,509	574,509
Retained earnings	4,801,394	4,827,633
treasury stock	(1,078,764)	(1,078,764)
Total shareholders' equity	4,894,950	4,921,189
Accumulated other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities, net of taxes	596	2,482
Total accumulated other comprehensive income	596	2,482
Total net assets	4,895,546	4,923,672
Total liabilities and net assets	6,516,266	6,371,603

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

(Quarterly Consolidated Statements of Income)

(For the three months ended June 30, 2011) (For the three months ended June 30, 2012)

(Unit: thousand yen)

	Three months ended September 30, 2022	Three months ended September 30, 2023
Net sales	2,269,949	2,533,677
cost of sales	1,366,529	1,503,264
Gross profit	903,419	1,030,413
Selling, general and administrative expenses	712,108	748,155
Operating income	191,311	282,258
Non-operating income		
Interest and dividend income	6	7
Sales incentives received	1,050	1,649
Subsidy income	28,386	27,901
Equity in earnings of affiliates	3,800	-
Other	3,258	6,554
Total non-operating income	36,502	36,112
Non-operating expenses		
foreign exchange loss	518	398
Loss on investment partnership management	8,744	1,892
Fees and commissions	2,003	-
Equity in losses of affiliated companies	-	3,024
Other	0	0
Total non-operating expenses	11,266	5,315
Ordinary income	216,547	313,055
Extraordinary loss		
Loss on valuation of investment securities	-	1,744
Loss on sales of fixed assets	-	32
Total extraordinary loss	-	1,776
Income before income taxes and minority interests	216,547	311,278
Corporate, inhabitant and enterprise taxes	31,693	70,821
Income taxes-deferred	35,950	42,425
Total income taxes	67,644	113,247
Net income	148,903	198,031
Net income attributable to noncontrolling interests	-	-
Net income attributable to owners of the parent	148,903	198,031

(Quarterly Consolidated Statements of Comprehensive Income)

(For the three months ended June 30, 2011) (For the three months ended June 30, 2012)

(Unit: thousand yen)

	Three months ended September 30, 2022	Three months ended September 30, 2023
Net income	148,903	198,031
Other comprehensive income		
Net unrealized gains (losses) on available-for-sale securities, net of taxes	7,757	1,886
Total other comprehensive income	7,757	1,886
Comprehensive income	156,661	199,917
(Breakdown)		
Comprehensive income attributable to owners of the parent	156,661	199,917
Comprehensive income attributable to noncontrolling interests	-	-

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on premise of a going concern)

Not applicable.

(Notes in the event of significant changes in shareholders' equity)

Not applicable.

(Segment Information, etc.)

Segment information

I Three months ended September 30, 2022 (July 1, 2022 - September 30, 2022)

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

(Unit: thousand yen)

	Reportable Segment			Adjustment (Note) 1	Amount recorded in quarterly consolidated statements of income (Note 2)
	Professional Services Business	Product Business	plan		
Net sales					
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

(Note) 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 the Group's sales and administrative divisions, etc., which do not belong to any reportable segment.

2. Segment income is adjusted with operating income in the quarterly consolidated statements of income.

2. Information on impairment loss on fixed assets or goodwill by reportable segment

(Significant impairment losses 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 in the "product business" increased due to the acquisition of Time Technologies, Inc. and its inclusion in the scope of consolidation. The amount of increase in goodwill due to this event was 655,388 thousand yen in the first quarter of the current consolidated fiscal year.

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.

Current 1st quarter consolidated cumulative period (July 1, 2023 - September 30, 2023)

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

(Unit: thousand yen)

	Reportable Segment			Adjustment (Note) 1	Amount recorded in quarterly consolidated statements of income (Note) 2
	Professional Services Business	Product Business	plan		
Net sales					
Sales to external customers	1,728,769	804,907	2,533,677	-	2,533,677
Intersegment sales and transfers	-	-	-	-	-
Total	1,728,769	804,907	2,533,677	-	2,533,677
Segment profit (loss)	633,681	183,102	816,783	△534,525	282,258

(Note) 1. Adjustment of segment income includes 534,525 thousand yen of corporate expenses that are not allocated to each reportable segment. Corporate expenses mainly consist of selling, general and administrative expenses of the Group's sales and administrative divisions, etc., which do not belong to any reportable segment.

2. Segment income is adjusted with operating income in the quarterly consolidated statements of income.

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

(Significant impairment losses on fixed assets)

Not applicable.

(Significant changes in the amount of goodwill)

Not applicable.

(Significant gain on negative goodwill)

Not applicable.

(Significant subsequent events)

Not applicable.