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May 13,2022

Non-consolidated Financial Results for the Nine Months Ended March 31, 2022 (Under Japanese GAAP)

Company name: BrainPad Inc.
 Listing: Tokyo Stock Exchange
 Securities code: 3655
 URL: <https://www.brainpad.co.jp/english/>
 Representative: Takafumi Kusano CEO/Representative Director/Co-Founder
 Inquiries: Ko Ishikawa Director/CFO
 Telephone: +81-3-6721-7701
 Scheduled date to file quarterly securities report: May 13,2022
 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. Non-consolidated financial results for the nine months ended March 31, 2022 (from July 1,2021 to March 31,2022)

(1) Non-consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
March 31,2022	6,492	-	1,072	-	1,083	-	745	-
March 31,2021	-	-	-	-	-	-	-	-

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended		
March 31,2022	33.85	-
March 31,2021	-	-

Notes: 1. Consolidated financial results were disclosed for the third quarter of the fiscal year ending June 30, 2021, but non-consolidated financial results are disclosed from the first half of the fiscal year ending June 30, 2022. As a result, operating results (cumulative) for the third quarter of the fiscal year ending June 30, 2021 and percentage change from the same period of the previous year are not shown.

2. 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 said stock split was conducted at the beginning of the current fiscal year.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
March 31,2022	5,849	4,807	82.2
June 30,2021	5,786	4,682	80.9

Reference: Equity

As of March 31,2022: ¥4,807 million
 As of June 30,2021: ¥4,682 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 30,2021	-	0.00	-	0.00	0.00
Fiscal year ending June 30,2022	-	0.00	-		
Fiscal year ending June 30,2022 (Forecast)				0.00	0.00

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

3. Forecast of Non-Consolidated Financial Results for the Fiscal Year Ending June 30, 2022 (July 1, 2021 - June 30, 2022)

(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	8,600	21.2	1,210	43.7	1,250	40.6	800	48.7	36.48

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

We conducted a stock split on January 1, 2022, whereby one share of common stock was divided into three shares, but the above Basic earnings per share figures take into account the effect of this stock split.

*** Notes**

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

(2) 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 Financial Statements and Main Notes (4) Notes to Quarterly Financial Statements (Changes in Accounting Policies)" on page 9 of the attached materials.

(3) Number of issued shares (common shares)

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

As of March 31,2022	22,300,596 shares
As of June 30, 2021	22,300,596 shares

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

As of March 31,2022	371,844 shares
As of June 30, 2021	981 shares

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

Nine months ended March 31,2022	22,010,274 shares
Nine months ended March 31,2021	22,272,264 shares

Note: On January 1, 2022, the Company conducted a 3-for-1 stock split of common stock. The above figures are calculated on the assumption that the said stock split was conducted at the beginning of the previous fiscal year.

* 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 quarterly financial results are disclosed on TDnet on the same day.
3. We have shifted from consolidated financial statements to non-consolidated financial statements from the second quarter of the fiscal year ending June 30, 2022, as there are no longer any consolidated subsidiaries due to the absorption-type merger of Mynd Corporation, a consolidated subsidiary, as of December 1, 2021.

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Qualitative Information on Non-consolidated Financial Results for the Third Quarter Ended June 30, 2022

(1) Explanation of business results

We have shifted to non-consolidated financial results from the second quarter of the current fiscal year, although we had consolidated financial results until the first quarter of the current fiscal year due to the merger with our wholly owned subsidiary Mynd Corporation on December 1, 2021. Quarterly consolidated financial statements were prepared for the first half of the previous fiscal year, but since quarterly consolidated financial statements have not been prepared since the first half of the current fiscal year due to the above, comparative analysis has not been performed.

However, due to the fact that the impact of Mynd Co., Ltd. on our consolidated business performance was minimal, please refer to the previous year's comparison with the previous consolidated fiscal year as reference figures only in the "Supplementary Information for the Third Quarter of the Fiscal Year Ending June 30, 2022" released today.

During the first nine months of the current fiscal year, the outlook for the Japanese economy remained uncertain, with personal consumption weakening due to the impact of the spread of the new coronavirus mutant strain and the emergence of downside factors in the economy, such as soaring resource prices and financial market turbulence caused by the deteriorating situation in Ukraine. On the other hand, in the domestic ICT market, digitalization is accelerating in all aspects of business and daily life, and the government is taking a stronger stance to encourage IT investment, including the establishment of a tax system to promote digital transformation (DX), and this market is growing steadily.

Under these circumstances, the current fiscal year is the third year of the Group's medium-term management plan (fiscal year ending June 2020 to fiscal year ending June 2023), and based on the fact that order activities have reached a level higher than before Corona, we plan to restore sales growth to around 20% per year, which is the target in the current medium-term management plan. In terms of profits, we aim to achieve the same level of growth in profits as in sales growth while implementing three priority actions involving investments (continuation of active recruitment of human resources, re-growth of the product business, and consolidation and relocation of offices to strengthen organizational capabilities) to lay the foundation for sustainable growth in the future.

Net Sales for the period under review exceeded the initial projection, driven by the professional services business. The professional services business led the overall performance, exceeding our initial forecasts. In addition, the timing of recording some sales has been moved up from the third quarter to the second quarter, and the number of personnel allocated to new projects in the professional services business has been limited due to the need to allocate personnel to specific large-scale projects. As a result, net sales for the third quarter of the fiscal year under review were lower than those for the second quarter.

Profits, including losses incurred on certain large projects mentioned above, exceeded initial expectations due to strong sales and lower-than-expected expenditures on certain expenses.

As a result, for the third quarter of the current fiscal year, net sales totaled 6,492,286 thousand yen, operating profit totaled 1,072,117 thousand yen, ordinary profit totaled 1,083,678 thousand yen, and profit totaled 745,004 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 first nine months of the current fiscal year, the number of projects continued to lengthen and increase in size due to strong demand for data utilization, which is essential for DX promotion. As a result, both net sales and profits were stronger than expected at the beginning of the period, despite losses on certain large projects and the limited number of staff allocated to new projects, as mentioned above.

As a result, net sales totaled 4,603,643 thousand yen and segment income totaled 1,937,970 thousand yen.

Revenue from this business can be broken down into two main categories: consulting/analytics, which includes data utilization consulting services by our consultants and data analysis services by our data scientists, and which is accounted for based on the percentage of performance based on a quasi-delegated contract (consulting/analytics); and engineering, which includes system development services such as data utilization environments by our system engineers, and which is accounted for based on the delivery of deliverables based on a contract (engineering).

(Product Business)

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

In the previous consolidated fiscal year, this business compensated for the shrinking scale of sales from the industries strongly affected by the expansion of the infectious disease by receiving new orders and up-selling to existing customers, but the increase in sales from new orders did not reach our expectations, resulting in a slight decrease in sales. In response to the results of the previous fiscal year, in the current fiscal year, we have concentrated our management resources, including human resources, on our mainstay products in order to achieve renewed growth in this business. At the same time, we have implemented organizational changes to consolidate divisions related to this business, and are working to strengthen sales and marketing process functions and sales capabilities by promoting cooperation among divisions.

We believe that it will take a certain period of time for the results of these efforts to begin to show, and the decline in sales due to the termination of sales of products that are not our mainstay products has limited the growth in sales and profits during the first nine months of the current fiscal year.

As a result, net sales totaled 1,886,642 thousand yen and segment income totaled 516,801 thousand yen.

(2) Explanation of Financial Position

(Assets)

The balance of current assets at the end of the third quarter of the current fiscal year was 4,638,978 thousand yen, a decrease of 280,994 thousand yen compared to the end of the previous fiscal year. This was mainly due to a decrease of 274,921 thousand yen in cash.

The balance of non-current assets totaled 1,210,354 thousand yen, an increase of 343,710 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 425,843 thousand yen in other assets and an increase of 18,229 thousand yen in other intangible assets, while software decreased 66,076 thousand yen and property, plant and equipment decreased 34,286 thousand yen.

As a result, total assets increased by 62,715 thousand yen compared to the end of the previous fiscal year to 5,849,332 thousand yen.

(Liabilities)

The balance of current liabilities at the end of the third quarter of the current fiscal year was 1,039,953 thousand yen, a decrease of 64,070 thousand yen compared to the end of the previous fiscal year. This was mainly due to a decrease of 57,421 thousand yen in provision for bonuses and a decrease of 40,486 thousand yen in income taxes payable, while there was an increase of 19,162 thousand yen in accrued expenses and an increase of 16,491 thousand yen in accounts payable-other.

The balance of non-current liabilities was 2,131 thousand yen, an increase of 1,990 thousand yen from the end of the previous fiscal year. This was mainly due to an increase of 1,990 thousand yen in other non-current liabilities.

As a result, total liabilities decreased by 62,080 thousand yen compared to the end of the previous fiscal year to 1,042,085 thousand yen.

(Net assets)

Total net assets as of the end of the third quarter of the current fiscal year were 4,807,246 thousand yen, an increase of 124,795 thousand yen compared to the end of the previous fiscal year. This was mainly due to an increase of 745,004 thousand yen in retained earnings and an increase of 30,978 thousand yen in valuation difference on available-for-sale securities, while there was a decrease of 655,490 thousand yen due to the acquisition of treasury shares.

As a result, the equity ratio was 82.2%.

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

The Japanese government has announced a "Digital New Deal," which calls for intensive investment in and implementation of digitalization and the creation of an environment for its implementation. In the "DX Report 2" released by the Ministry of Economy, Trade and Industry (METI) at the end of 2020, it was noted that although domestic companies generally have a sense of urgency about the digital transformation caused by the Corona disaster, there is a polarization between "companies that have begun to work on DX" and "companies that have yet to work on anything." The role of IT vendors in supporting these companies is changing, and the new image of IT vendors is to support and accompany client companies and drive DX.

As client companies and IT vendors are required to further promote co-creation, demand related to "data utilization," which is essential for DX promotion, is expected to continue to rise. Therefore, the Group will continue to expand and strengthen its organizational structure to demonstrate its comprehensive capabilities in "data utilization," and aim to achieve its medium-term management plan (targeting consolidated net sales of 11.5 billion yen and consolidated ordinary profit of 2 billion yen in the fiscal year ending June 30, 2023).

In the current fiscal year, which is the third year of the plan, we are planning to recover to the annual sales growth rate of around 20%, which is the target of the medium-term management plan, based on the fact that the current order activity has reached a level higher than that before Corona. In terms of profit, we aim to achieve the same level of profit growth as sales growth, while implementing three priority actions involving investment to lay the foundation for sustainable growth in the future (continued active recruitment of human resources, re-growth of the product business, and consolidation and relocation of offices to strengthen organizational capabilities).

The non-consolidated forecasts for net sales and income for the first nine months of the fiscal year ending March 31, 2022 are within the range of the non-consolidated forecasts announced on January 25, 2022. Therefore, no revision has been made to the non-consolidated earnings forecast announced on January 25, 2022.

(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 June 30, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	3,390,499	3,115,577
Notes and accounts receivable-trade	1,033,042	1,020,182
Work in process	39,295	44,820
Prepaid expenses	221,099	249,104
Current portion of long-term loans receivable from subsidiaries and associates	93,000	-
Guarantee deposits	199,995	199,995
Other	18,821	13,078
Allowance for doubtful accounts	(75,780)	(3,780)
Total current assets	4,919,972	4,638,978
Non-current assets		
Property, plant and equipment	86,831	52,544
Intangible assets		
Software	273,412	207,335
Other	33,280	51,509
Total intangible assets	306,692	258,845
Investments and other assets	473,120	898,963
Total non-current assets	866,644	1,210,354
Total assets	5,786,617	5,849,332

(Unit: thousand yen)

	As of June 30, 2021	As of March 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	100,190	108,539
Accounts payable - other	142,517	159,009
Accrued expenses	106,012	125,175
Income taxes payable	208,317	167,831
Unearned revenue	181,713	-
Contract liabilities	-	142,587
Provision for bonuses	93,035	35,613
Provision for office relocation costs	26,018	26,018
Asset retirement obligations	80,295	80,167
Other	165,925	195,012
Total current liabilities	1,104,024	1,039,953
Non-current liabilities		
Other	141	2,131
Total non-current liabilities	141	2,131
Total liabilities	1,104,166	1,042,085
Net assets		
Shareholders' equity		
Share capital	597,809	597,809
Capital surplus	574,509	578,813
Retained earnings	3,510,542	4,255,547
Treasury shares	(411)	(655,901)
Total shareholders' equity	4,682,450	4,776,268
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	-	30,978
Total valuation and translation adjustments	-	30,978
Total net assets	4,682,450	4,807,246
Total liabilities and net assets	5,786,617	5,849,332

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

(Unit: thousand yen)

Nine months ended March 31, 2022	
Net sales	6,492,286
Cost of sales	3,499,501
Gross profit	2,992,784
Selling, general and administrative expenses	1,920,667
Operating profit	1,072,117
Non-operating income	
Interest income	293
Dividend income	2,173
Outsourcing service income	2,727
Sales promotion premium fee	3,494
Subsidy income	7,777
Other	13,195
Total non-operating income	29,661
Non-operating expenses	
Foreign exchange losses	1,557
Loss on investments in investment partnerships	1,975
Commission expenses	14,559
Other	7
Total non-operating expenses	18,100
Ordinary profit	1,083,678
Extraordinary income	
Gain on extinguishment of tie-in shares	559
Total extraordinary income	559
Extraordinary loss	
Office relocation costs	49,477
Total extraordinary loss	49,477
Profit before income taxes	1,034,761
Income taxes – current	303,657
Income taxes – deferred	(13,901)
Total income taxes	289,756
Profit	745,004

(3) Notes to Quarterly Financial Statements

(Note on going concern assumption)

Not applicable.

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

Based on the resolution of the Board of Directors' meeting held on August 12, 2021, the Company acquired 130,000 shares of treasury stock, while based on the resolution of the Board of Directors' meeting held on September 29, 2021, the Company disposed of 8,150 shares of treasury stock as compensation for restricted stock transfer. As a result, including the increase due to the purchase of odd-lot shares, treasury stock increased by 655,490 thousand yen during the third quarter of the current fiscal year, and treasury stock totaled 655,901 thousand yen at the end of the third quarter of the current fiscal year.

(Change in accounting policy)

(Application of Accounting Standard for Revenue Recognition, etc.)

We have adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the "Revenue Recognition Accounting Standard"), etc. from the beginning of the first quarter of the fiscal year ending June 30, 2022, and recognizes revenue at the amount expected to be received in exchange for the promised goods or services when control of the goods or services is transferred to the customer.

With respect to the application of the revenue recognition accounting standard, etc., the Company has followed the transitional treatment prescribed in the proviso of Paragraph 84 of the revenue recognition accounting standard, and the cumulative effect of retroactively applying the new accounting policy prior to the beginning of the first quarter has been added to or deducted from retained earnings at the beginning of the first quarter, and the new accounting policy has been applied from the relevant beginning balance.

As a result, the adoption of this accounting standard had only a minor impact on the quarterly financial statements and had no effect on the beginning balance of retained earnings.

In addition, due to the application of the revenue recognition accounting standard, "unearned revenue" which was presented in "current liabilities" in the balance sheet of the previous fiscal year, is now included in "contract liabilities" from the first quarter of the current fiscal year.

In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made for the previous fiscal year using the new presentation method. Furthermore, in accordance with the transitional treatment prescribed in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), we have not presented information on revenues from contracts with customers broken down for the nine months ended March 31, 2022.

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

We have applied the "Accounting Standard for Measurement of Fair Value" (ASBJ Statement No. 30, July 4, 2019; 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, 2022, and in accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Measurement of Fair Value and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), we have decided to apply the new accounting policy prescribed by the Accounting Standard for Measurement of Fair Value, etc. prospectively.

(Segment Information, etc.)

[Segment Information]

Nine months ended March 31, 2022 (July 1, 2021 - March 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	4,603,643	1,888,642	6,492,286	-	6,492,286
Intersegment sales and transfers	-	-	-	-	-
Total	4,603,643	1,888,642	6,492,286	-	6,492,286
Segment profit (loss)	1,937,970	516,801	2,454,771	(1,382,654)	1,072,117

Notes: 1. Adjustment of segment income includes corporate expenses of 1,382,654 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 quarterly statements of income.

2. Information on impairment loss of non-current assets, goodwill, etc. by reportable segment

(Significant impairment loss on non-current assets)

Not applicable.

(Significant changes in the amount of goodwill)

Not applicable.

(Significant gain on negative goodwill)

Not applicable.