Consolidated Financial Results for the Three Months Ended March 31, 2025 (Under IFRS)

May 15, 2025

Company name Monstarlab Inc. Stock exchange listings: Tokyo Growth

Securities code 5255 URL https://monstar-lab.com/jp

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Dividend payable date (as planned) -

Supplemental material of results : Yes

Convening briefing of results : Yes (for analysts and institutional investors [on-demand video])

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

1. Consolidated financial results for the three months ended March 31, 2025 (from January 1, 2025 to March 31, 2025)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Total comprehensive income	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2025	1,899	-40.2	93	-	-171	-	-148	-	-137	-	-83	-
March 31, 2024	3,179	-12.6	-891	-	-268	-	-348	-	-340	-	-515	-

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
March 31, 2025	-3.11	-3.11
March 31, 2024	-9.92	-9.92

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Equity attributable to owners of parent to total assets ratio
As of	Millions of yen	Millions of yen	Millions of yen	%
March 31, 2025	7,799	-775	-726	-9.3
December 31, 2024	7,589	-4,776	-4,738	-62.4

2. Cash dividends

	Annual dividend				
	First quarter	Second quarter	Third quarter	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2024	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2025	-				
Fiscal year ending December 31, 2025 (Forecast)		0.00	-	0.00	0.00

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

3. Consolidated financial forecast for the fiscal year ending December 31, 2025 (from January 1, 2025 to December 31, 2025)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
Fiscal year ending December 31, 2025	8,517	-14.8	360	―	274	―	206	―	5.27

Note:Revisions to the earnings forecasts most recently announced：None

* Notes

(1) Significant changes in the scope of consolidation during the period：None

(2) Changes in accounting policies and changes in accounting estimates

(i) Changes in accounting policies required by IFRS：None

(ii) Changes in accounting policies due to other reasons ：None

(iii) Changes in accounting estimates ：None

(3) Number of issued shares (ordinary shares)

① Number of issued and outstanding shares at the period end (including treasury stock)	As of March 31, 2025	49,268,950 shares	As of December 31, 2024	39,176,950 shares
② Number of treasury stock at the period end	As of March 31, 2025	243,300 shares	As of December 31, 2024	0 shares
③ Average number of shares (quarterly period-YTD)	Three months ended March 31, 2025	44,354,884 shares	Three months ended March 31, 2024	34,326,950 shares

* Review of the Japanese-language originals of the attached consolidated quarterly financial statements by certified public accountants or an audit firm：None

* Proper use of earnings forecasts, and other special matters

(Cautionary Statement Regarding Forward-Looking Statements)

The forward-looking statements in this document, including earnings forecasts, are based on information currently available to the Company and certain assumptions that the Company deems reasonable. Therefore, this is not intended to promise its achievement. Actual results may differ materially due to various factors. For the assumptions underlying earnings forecasts and disclaimers concerning the use of earnings forecasts, please refer to the Appendix (P.4, "1. Qualitative Information on Operating Results, etc. (3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Information").

Contents of Appendix

1. Qualitative Information on Quarterly Financial Results

(1) Overview of Operating Results for the Current Quarter

The Monstarlab Group (the “Group”) operates under the mission "Empower talent everywhere to engineer awesome products, services and ecosystems; building a brighter world for us all." We aim to contribute to a better world by working with our clients as their digital partner to create products, services, and ecosystems that will resolve global issues, while simultaneously providing "opportunities" such as "opportunities to work," "opportunities to grow," and "opportunities to participate in projects that tackle global issues" across national borders.

During the first three months of the current fiscal year, the global and Japanese economies showed a moderate recovery trend, supported by an expansion in inbound demand and an improvement in the income environment due to wage increases. However, the economic outlook both domestically and internationally remains uncertain due to factors such as prolonged price hikes caused by the situation in Ukraine, as well as future policy trends in the United States and fluctuations in financial capital markets. On the other hand, in the IT industry, the momentum for digital shifts triggered by the COVID-19 pandemic shows no signs of waning. Demand for digital transformation (DX) directly linked to management strategies has increased, and corporate appetite for DX investment continues to be strong.

Amidst this business environment, the Group operates its main "Digital Consulting Business," which primarily supports DX for corporations and local governments in line with their business challenges and new business needs, as well as "Other Business" including product businesses, in 12 countries and regions globally (as of December 31, 2024). The Group classifies the areas where its Digital Consulting Business operates into two regions: APAC, which refers to Japan, the Asia-Pacific region, and the Middle East; and AMER, which refers to North, Central, and South America.

For the first three months of the current fiscal year, the Group achieved operating profitability as a result of completing the establishment of a growth foundation and transforming into a structure capable of generating profits. This was accomplished through fundamental structural reforms centered on the withdrawal and downsizing of unprofitable bases and cost optimization, which were promoted throughout the fiscal year ended December 31, 2024. In APAC, approaches utilizing generative AI and initiatives for data and enterprise system projects are progressing smoothly. For the full-scale development of the data and enterprise domain, organizational reinforcement is steadily progressing through the launch of a continuing organization and the participation of a supervising manager with extensive knowledge.

In AMER, although sales decreased compared to the previous quarter due to the postponement of the start of large-scale projects, the region has consistently recorded operating profits since achieving operating profitability in the third quarter of the fiscal year ended December 31, 2024. A stable pipeline has been established, primarily with existing major clients, and the business environment is favorable, building a solid foundation for future growth.

As a result, for the first three months of the current fiscal year, the Group’s revenue was 1,899,698 thousand (a decrease of 40.2% year-on-year), operating profit was 93,739 thousand (compared to an operating loss of 891,590 thousand in the same period of the previous year), loss before tax was 171,981 thousand (compared to a loss before tax of 268,911 thousand in the same period of the previous year), and loss attributable to owners of parent was 137,846 thousand (compared to a loss attributable to owners of parent of 340,633 thousand in the same period of the previous year).

The operating results for the Digital Consulting Business by region are as follows:

1. APAC

For the first three months of the current fiscal year, revenue amounted to 1,529,398 thousand (a decrease of 7.6% year-on-year), and operating profit was 65,631 thousand (a decrease of 40.6% year-on-year). These figures are compared to APAC in the previous year, which consisted of Japan and the Asia-Pacific region.

While sales have decreased due to the fiscal year-end transition for clients, the profit margin has improved from the previous quarter due to cost control. Approaches utilizing generative AI and initiatives for data and enterprise system projects are progressing smoothly. For the full-scale development of the data and enterprise domain, organizational reinforcement is steadily progressing through the launch of a continuing organization and the participation of a supervising manager with extensive knowledge.

2. AMER

For the first three months of the current fiscal year, revenue amounted to 249,995 thousand (an increase of 28.6% year-on-year), and operating profit was 15,225 thousand (compared to an operating loss of 135,329 thousand in the same period of the previous year).

A stable pipeline has been established, primarily with existing major clients, and the business environment is favorable. With the acquisition of large-scale projects, operations are now in full swing, building a solid foundation for future growth.

(2) Explanation of Financial Position

1) Status of Assets, Liabilities, and Equity The status of assets, liabilities, and equity at the end of the first three months of the current fiscal year is as follows:

(Current assets)

The balance of current assets was 3,198,890 thousand (compared to 2,723,335 thousand at the end of the previous fiscal year). The main components included cash and cash equivalents of 1,920,817 thousand (compared to 1,550,889 thousand at the end of the previous fiscal year) and trade and other receivables of 886,055 thousand (compared to 733,683 thousand at the end of the previous fiscal year).

(Non-current assets)

The balance of non-current assets was 4,600,835 thousand (compared to 4,865,784 thousand at the end of the previous fiscal year). The main components included goodwill of 699,354 thousand (compared to 699,354 thousand at the end of the previous fiscal year) and other financial assets of 3,139,381 thousand (compared to 3,281,212 thousand at the end of the previous fiscal year).

(Current liabilities)

The balance of current liabilities was 6,500,765 thousand (compared to 5,710,500 thousand at the end of the previous fiscal year). The main components included trade and other payables of 581,907 thousand (compared to 694,227 thousand at the end of the previous fiscal year) and bonds and borrowings of 4,538,956 thousand (compared to 3,372,457 thousand at the end of the previous fiscal year).

(Non-current liabilities)

The balance of non-current liabilities was 2,073,975 thousand (compared to 6,655,339 thousand at the end of the previous fiscal year). The main components included bonds and borrowings of 1,342,081 thousand (compared to 5,808,099 thousand at the end of the previous fiscal year) and lease liabilities of 233,854 thousand (compared to 265,114 thousand at the end of the previous fiscal year).

(Total equity)

Total equity was (775,015) thousand (compared to (4,776,719) thousand at the end of the previous fiscal year). The main components included share capital of 82,010 thousand (compared to 2,175,325 thousand at the end of the previous fiscal year), capital surplus of 952,333 thousand (compared to 10,896,713 thousand at the end of the previous fiscal year), and retained earnings of (2,521,253) thousand (compared to (18,505,948) thousand at the end of the previous fiscal year).

2) Status of cash flows

Cash and cash equivalents (hereinafter referred to as "funds") at the end of the first three months of the current fiscal year amounted to 1,920,817 thousand (compared to 1,550,889 thousand at the end of the previous fiscal year).

Cash flow activities during the first three months of the current fiscal year and their main factors were as follows:

(Cash flows from operating activities)

Net cash used in operating activities totaled 315,105 thousand (compared to net cash used in operating activities of 693,584 thousand in the same period of the previous year). This was mainly due to a loss before tax of (171,981) thousand (compared to a loss before tax of (268,911) thousand in the same period of the previous year), an increase in trade and other receivables of 141,650 thousand (compared to a decrease of 257,259 thousand in the same period of the previous year), foreign exchange losses of 103,906 thousand (compared to foreign exchange gains of 618,371 thousand in the same period of the previous year), a decrease in contract assets of 52,064 thousand (compared to an increase of 22,637 thousand in the same period of the previous year), other changes resulting in a decrease of 128,618 thousand (compared to a decrease of 142,765 thousand in the same period of the previous year), and income taxes paid of 72,059 thousand (compared to 17,156 thousand in the same period of the previous year).

(Cash flows from investing activities)

Net cash used in investing activities totaled 8,484 thousand (compared to net cash used in investing activities of 79,328 thousand in the same period of the previous year). This was mainly due to purchase of property, plant and equipment of 804 thousand (compared to 16,483 thousand in the same period of the previous year) and purchase of intangible assets of 7,937 thousand (compared to 56,132 thousand in the same period of the previous year).

(Cash flows from financing activities)

Net cash provided by financing activities totaled 734,203 thousand (compared to net cash provided by financing activities of 177,670 thousand in the same period of the previous year). This was due to factors such as a net decrease in short-term borrowings of 2,633,764 thousand (compared to a net increase of 745,000 thousand in the same period of the previous year), repayments of long-term borrowings of 666,236 thousand (compared to 183,681 thousand in the same period of the previous year), repayments of lease liabilities of 43,566 thousand (compared to 133,648 thousand in the same period of the previous year), and proceeds from issuance of new shares of 4,077,770 thousand (compared to zero in the same period of the previous year).

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

There are no changes to the consolidated financial forecast for the fiscal year ending December 31, 2025, from the figures announced on February 14, 2025.

The Group had negative net assets as of the end of March 2025. To address this situation, the Group will strive to stabilize its business and financial conditions, aim for sustainable improvement in its financial results, and promote measures to strengthen its capital base, thereby working to resolve and improve this situation. For specific measures regarding capital strengthening, please refer to Note "11. Notes about Premise of a Going Concern."

(4) Significant Matters Regarding the Assumption of Going Concern

There exist circumstances that cast significant doubt on the assumption that the Group can continue as a going concern. For the reasons, etc., please refer to Note "11. Notes about Premise of a Going Concern."

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Statement of Financial Position

(Thousands of yen)

	Note	As of December 31, 2024	As of March 31, 2025
Assets			
Current assets			
Cash and cash equivalents		1,550,889	1,920,817
Trade and other receivables		733,683	886,055
Contract assets		150,840	72,384
Inventories		4,494	4,199
Other current assets		279,863	312,116
Assets held for sale		3,563	3,316
Total current assets		2,723,335	3,198,890
Non-current assets			
Property, plant and equipment		87,800	75,727
Right-of-use assets		139,336	137,369
Goodwill		699,354	699,354
Intangible assets		276,099	270,030
Other financial assets	5	3,281,212	3,139,381
Deferred tax assets		80,708	35,706
Other non-current assets		301,272	243,265
Total non-current assets		4,865,784	4,600,835
Total assets		7,589,119	7,799,725

(Thousands of yen)

	Note	As of December 31, 2024	As of March 31, 2025
Liabilities and equity			
Current liabilities			
Trade and other payables		694,227	581,907
Contract liabilities		270,260	283,157
Bonds and borrowings	5	3,372,457	4,538,956
Lease liabilities		122,027	116,959
Income taxes payable		69,659	3,599
Provisions		86,403	54,766
Other current liabilities		1,095,464	921,419
Total current liabilities		5,710,500	6,500,765
Non-current liabilities			
Bonds and borrowings		5,808,099	1,342,081
Lease liabilities		265,114	233,854
Provisions		118,244	116,720
Deferred tax liabilities		289,740	213,305
Other non-current liabilities		174,139	168,013
Total non-current liabilities		6,655,339	2,073,975
Total liabilities		12,365,839	8,574,741
Equity			
Share capital		2,175,325	82,010
Capital surplus		10,896,713	952,333

Retained earnings	-18,505,948	-2,521,253
Other components of equity	695,364	760,116
Total equity attributable to owners of parent	-4,738,544	-726,792
Non-controlling interests	-38,175	-48,223
Total equity	-4,776,719	-775,015
Total liabilities and equity	7,589,119	7,799,725

(2) Quarterly Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

(Quarterly Consolidated Statement of Profit or Loss)

(Thousands of yen)

	Note	Three months ended March 31, 2024	Three months ended March 31, 2025
Revenue	7	3,179,153	1,899,698
Cost of sales		-2,507,651	-1,164,128
Gross profit		671,501	735,570
Selling, general and administrative expenses		-1,577,279	-666,412
Other income		18,349	25,545
Other expenses		-4,162	-963
Operating profit (loss)	7	-891,590	93,739
Finance income		658,214	10,319
Finance costs		-33,293	-258,575
Share of profit (loss) of investments accounted for using equity method		-2,242	-17,464
Profit (loss) before tax		-268,911	-171,981
Income tax expense		-79,635	23,596
Profit (loss)		-348,547	-148,384
Profit (loss) attributable to			
Owners of parent		-340,633	-137,846
Non-controlling interests		-7,913	-10,538
Profit (loss)		-348,547	-148,384
Earnings (loss) per share			
Basic earnings (loss) per share	8	-9.92	-3.11
Diluted earnings (loss) per share	8	-9.92	-3.11

(Quarterly Consolidated Statement of Comprehensive Income)

(Thousands of yen)

	Note	Three months ended March 31, 2024	Three months ended March 31, 2025
Profit (loss)		-348,547	-148,384
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		40	-16
Total		40	-16
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		-167,157	65,219
Total		-167,157	65,219
Other comprehensive income, net of tax		-167,116	65,203
Comprehensive income		-515,664	-83,181
Comprehensive income attributable to			
Owners of parent		-507,644	-73,094
Non-controlling interests		-8,019	-10,086
Comprehensive income		-515,664	-83,181

(3) Quarterly Consolidated Statement of Changes in Equity

For the three months ended March 31, 2024 (from January 1, 2024 to March 31, 2024)

(Thousands of yen)

	Note	Equity attributable to owners of parent							Non-controlling interests	Total equity
					Other components of equity					
		Share capital	Capital surplus	Retained earnings	Exchange differences on translation of foreign operations	Remeasurements of defined benefit plans	Total	Total equity attributable to owners of parent		
Balance at beginning of period		1,922,586	10,499,729	-8,558,362	-153,474	604	-152,870	3,711,083	-5,055	3,706,027
Profit (loss)		—	—	-340,633	—	—	—	-340,633	-7,913	-348,547
Other comprehensive income		—	—	—	-167,051	40	-167,010	-167,010	-106	-167,116
Comprehensive income		—	—	-340,633	-167,051	40	-167,010	-507,644	-8,019	-515,664
Transfer to retained earnings		—	—	—	—	—	—	—	—	—
Issuance of new shares		—	—	—	—	—	—	—	—	—
Issuance of share acquisition rights		—	—	—	—	—	—	—	—	—
Exercise of share acquisition rights		—	—	—	—	—	—	—	—	—
Share-based payment transactions		—	49,684	—	—	—	—	49,684	—	49,684
Loss of control of subsidiaries		—	—	—	—	—	—	—	—	—
Other		—	—	—	—	—	—	—	-95	-95
Total		—	49,684	—	—	—	—	49,684	-95	49,589
Balance at end of period		1,922,586	10,549,413	-8,898,995	-320,525	644	-319,880	3,253,123	-13,170	3,239,953

For the three months ended March 31, 2025 (from January 1, 2025 to March 31, 2025)

(Thousands of yen)

	Note	Equity attributable to owners of parent							Non-controlling interests	Total equity
					Other components of equity					
		Share capital	Capital surplus	Retained earnings	Exchange differences on translation of foreign operations	Remeasurements of defined benefit plans	Total	Total equity attributable to owners of parent		
Balance at beginning of period		2,175,325	10,896,713	-18,505,948	694,745	618	695,364	-4,738,544	-38,175	-4,776,719
Profit (loss)		—	—	-137,846	—	—	—	-137,846	-10,538	-148,384
Other comprehensive income		—	—	—	64,768	-16	64,751	64,751	451	65,203
Comprehensive income		—	—	-137,846	64,768	-16	64,751	-73,094	-10,086	-83,181
Transfer to retained earnings		-4,134,622	-11,987,919	16,122,541	—	—	—	—	—	—
Issuance of new shares		2,041,307	2,041,307	—	—	—	—	4,082,614	—	4,082,614
Exercise of share acquisition rights		—	-4,844	—	—	—	—	-4,844	—	-4,844
Share-based payment transactions		—	11,090	—	—	—	—	11,090	—	11,090
Other		—	-4,013	—	—	—	—	-4,013	39	-3,974
Total		-2,093,315	-9,944,379	16,122,541	—	—	—	4,084,846	39	4,084,886
Balance at end of period		82,010	952,333	-2,521,253	759,514	602	760,116	-726,792	-48,223	-775,015

(4) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Note	Three months ended March 31, 2024	Three months ended March 31, 2025
Cash flows from operating activities			
Profit (loss) before tax		-268,911	-171,981
Depreciation and amortization		108,980	33,881
Finance income and finance costs		33,220	39,534
Loss(Gain) on valuation of financial instruments		-175,581	119,172
Foreign exchange loss (gain)		-618,371	103,906
Decrease (increase) in trade and other receivables		257,259	-141,650
Increase (decrease) in trade and other payables		180,255	-108,873
Decrease (increase) in inventories		-2,065	294
Decrease (increase) in contract assets		-22,637	52,064
Other		-142,765	-128,618
Subtotal		-650,616	-202,270
Interest received		72	1,171
Interest paid		-25,884	-41,946
Income taxes paid		-17,156	-72,059
Net cash provided by (used in) operating activities		-693,584	-315,105
Cash flows from investing activities			
Purchase of property, plant and equipment		-16,483	-804
Purchase of intangible assets		-56,132	-7,937
Purchase of investment securities		—	0
Other		-6,712	257
Net cash provided by (used in) investing activities		-79,328	-8,484
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings		745,000	-2,633,764
Proceeds from long-term borrowings		—	-
Repayments of long-term borrowings		-183,681	-666,236
Redemption of bonds		-250,000	-
Repayments of lease liabilities		-133,648	-43,566
Proceeds from allocation of new shares to a third party of consolidated subsidiaries		—	4,077,770
Net cash provided by (used in) financing activities		177,670	734,203
Effect of exchange rate changes on cash and cash equivalents		39,793	-40,686
Net increase (decrease) in cash and cash equivalents		-555,450	369,927
Cash and cash equivalents at beginning of period		1,783,264	1,550,889
Cash and cash equivalents		1,227,814	1,920,817

(5) Notes to Condensed Quarterly Consolidated Financial Statements

1. Reporting Entity

Monstarlab Inc. (hereinafter, the "Company") is a stock company (kabushiki kaisha) located in Japan. Its registered head office is located in Shibuya-ku, Tokyo. Effective April 1, 2025, the Company changed its trade name from Monstarlab Holdings Inc. to Monstarlab Inc. Also, effective the same date, the Company's wholly-owned subsidiary, Monstarlab Inc., changed its trade name to Monstarlab Inc. Japan. The condensed quarterly consolidated financial statements of the Company for the three months ended March 31, 2025, comprise the Company and its subsidiaries (hereinafter, the "Group"). The principal business activities of the Company are described in "7. Operating Segments."

2. Basis of Preparation of Condensed Quarterly Consolidated Financial Statements

(1) Statement of Compliance with IFRS

The condensed quarterly consolidated financial statements of Monstarlab Inc. and its subsidiaries (the "Group") have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting," as stipulated in Article 5, Paragraph 2 of the "Rules for Preparation of Quarterly Financial Statements, etc." of the Tokyo Stock Exchange, Inc.

These condensed quarterly financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2024.

These condensed quarterly consolidated financial statements were approved by Hiroki Inagawa, Representative Director and President, and Sumito Suzuki, CFO, on May 15, 2025.

(2) Functional Currency and Presentation Currency

The condensed quarterly consolidated financial statements of the Group are presented in Japanese yen, which is the functional currency of the Group. All financial information presented in Japanese yen has been rounded down to the nearest thousand yen.

(3) Changes in Presentation

The Group has changed the presentation of revenue by region from the first quarter of the current fiscal year.

This change was made to include revenue previously classified as "EMEA" within "APAC." This is due to the significant downsizing of operations in the EMEA region, the consolidation of management of this region at the head office, and to more appropriately reflect the current situation where EMEA-related projects are also handled in Japan.

In conjunction with this change in presentation, revenue by region for the same quarter of the previous year has been restated to conform to the changed presentation. As a result, 1,214 million yen that was recorded under "EMEA" in the same quarter of the previous year has been reclassified to "APAC."

This change has no impact on the Company's reportable segments.

3. Material Accounting Policies

The material accounting policies applied to the Group’s condensed quarterly consolidated financial statements are consistent with those applied to the consolidated financial statements for the previous fiscal year.

4. Significant Accounting Judgments, Estimates, and Assumptions

In preparing the Group's condensed quarterly consolidated financial statements, management is required to make judgments, estimates, and assumptions that affect the application of the Group's accounting policies and reported amounts of income, expenses, assets, and liabilities, as well as the disclosure of contingent liabilities. However, uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amounts of assets or liabilities in future periods.

Any judgments, estimates, and assumptions that have a significant impact on the amounts in the condensed quarterly consolidated financial statements are, in principle, the same as those applied to the consolidated financial statements for the previous fiscal year.

5. Fair Values of Financial Instruments

(1) Method for determining fair value

The methods for determining the fair value of financial instruments are as follows:

a. Cash and cash equivalents, trade and other receivables, short-term loans receivable, trade and other payables, bonds and borrowings (current)

As these are settled in the short term, their fair values approximate their carrying amounts, and thus they are stated at these carrying amounts.

b. Equity shares

For equity shares for which an active market exists, fair value is determined based on market prices. For equity shares for which no active market exists, fair value is primarily assessed based on recent transaction prices between independent third parties.

c. Leasehold and guarantee deposits

Leasehold and guarantee deposits are valued by discounting future cash flows at an appropriate rate based on indicators such as the deposit period and government bond yields.

d. Bonds

Bonds are valued by discounting the total amount of principal and interest at a rate that reflects the remaining period to maturity and credit risk of the bonds.

e. Long-term borrowings

Long-term borrowings are valued by discounting the total amount of principal and interest at an assumed rate that would be applied if similar borrowings were newly undertaken.

(2) Fair value hierarchy

The fair value hierarchy for financial instruments is classified from Level 1 to Level 3 as follows:

Level 1: Fair values measured by quoted prices in active markets.

Level 2: Fair values calculated using observable inputs other than Level 1, either directly or indirectly.

Level 3: Fair values calculated using valuation techniques that include inputs not based on observable market data.

(3) Financial instruments measured at fair value on a recurring basis

1) Fair value hierarchy

The breakdown of financial instruments by fair value hierarchy level is as follows:

For the fiscal year ended December 31, 2024

(Unit: Thousand yen)

	Fair value			
	Level 1	Level 1	Level 1	Level 1
Assets:				
Financial assets measured at fair value through profit or loss				
Equity shares	—	—	2,936,284	2,936,284
Total	—	—	2,936,284	2,936,284
Liabilities:				
Financial liabilities measured with fair value through profit or loss				
Contingent consideration*	—	—	252,498	252,498
Total	—	—	252,498	252,498

For the three months ended March 31, 2025

(Unit: Thousand yen)

	Fair value			
	Level 1	Level 1	Level 1	Level 1
Assets: Financial assets measured at fair value through profit or loss Equity shares	—	—	2,817,511	2,817,511
Total	—	—	2,817,511	2,817,511
Liabilities: Financial liabilities measured with fair value through profit or loss Contingent consideration*	—	—	246,372	246,372
Total	—	—	246,372	246,372

* The Group may enter into an agreement to pay additional consideration for acquisition to other shareholders on the condition that the acquired subsidiary has achieved a certain level of financial results (e.g., revenue, EBITDA, retained earnings) for each fiscal year. The fair values of such contingent consideration are determined by using a discounted cash flow model or the like, based on the amounts of future payments under the agreement, and are classified as Level 3. Contingent consideration is included in "trade and other receivables" or "other non-current liabilities" in the consolidated statement of financial position.

2) Reconciliation of Level 3 fair values

(Unit: Thousand yen)

	Equity shares	Contingent consideration
Balance as of January 1, 2024	2,619,451	419,055
Purchase	—	—
Sale	—	—
Comprehensive income		
Profit (loss)	175,581	37,045
Other comprehensive income	—	—
Other	—	—
Balance as of December 31, 2024	2,795,032	456,100
Gains or losses recognized in profit or loss in relation to financial instruments held on December 31, 2024	175,581	37,045

(Unit: Thousand yen)

	Equity shares	Contingent consideration
Balance as of January 1, 2025	2,936,284	252,498
Purchase	—	—
Sale	—	—
Comprehensive income		

	Equity shares	Contingent consideration
Profit (loss)	-118,772	-6,126
Other comprehensive income	—	—
Other	—	—
Balance as of March 31, 2025	2,817,511	246,372
Gains or losses recognized in profit or loss in relation to financial instruments held on March 31, 2025	-118,772	-6,126

3) Sensitivity analysis of changes in significant unobservable inputs

Among fair values of assets classified as Level 3 that are measured with fair value, the fair values of securities investments evaluated based on their discounted future cash flows decrease (increase) as the discount rate rises (falls).

We do not expect any significant change in the fair values of financial instruments classified as Level 3 if their unobservable inputs are replaced with alternative assumptions that may be considered reasonable.

4) Financial Instruments Measured with Amortized Cost

The book values and fair values of financial instruments measured with amortized cost are as shown below. Note that the tables below do not include financial instruments for which the book value approximates the fair value.

(Unit: Thousand yen)

	As of December 31, 2024	
	Book value	Book value
Assets:		
Financial assets measured with amortized cost		
Other financial assets	176,284	174,587
Liabilities:		
Bonds and borrowings	9,180,556	9,147,081

(Unit: Thousand yen)

	As of March 31, 2025	
	Book value	Book value
Assets:		
Financial assets measured with amortized cost		
Other financial assets	174,130	172,001
Liabilities:		
Bonds and borrowings	5,881,037	5,866,769

6. Revenue

Disaggregation of revenue

This information is omitted since similar information is disclosed in “7. Operating Segments.”

7. Operating segments

(1) Outline of reportable segments

The reportable segments are components of the Group for which separate financial information is available and regularly reviewed by the Board of Directors to make decisions about the allocation of management resources and evaluate business results. The Group has two reportable segments: digital consultancy business and other business. The digital consultancy business provides a full range of services, from consulting to system development and operation, to promote digital transformation (DX), which aims to transform business models using IT.

Other business includes product businesses such as RPA (robot-based business automation) tools, self-ordering systems, and music distribution business.

(2) Information on Profit by Reportable Segment

For the Fiscal Year ended December 31, 2024 (From January 1, 2024 to March 31, 2024)

(Thousands of yen)

	Digital Consulting Department	Other Department	Total	Reconciling items	Per quarterly consolidated financial statements
Revenue					
Revenue from external customers	3,075,419	95,620	3,171,040	8,112	3,179,153
Intersegment revenue	5,205	—	5,205	-5,205	—
Total	3,080,625	95,620	3,176,246	2,906	3,179,153
Operating profit (loss)	-818,994	7,382	-811,612	-79,978	-891,590
Finance income					658,214
Finance costs					-33,293
Share of profit (loss) of investments accounted for using equity method					-2,242
Profit (loss) before tax					-268,911

For the three months ended March 31, 2025 (From January 1, 2025 to March 31, 2025)

(Thousands of yen)

	Digital Consulting Department	Other Department	Total	Reconciling items	Per quarterly consolidated financial statements
Revenue					
Revenue from external customers	1,788,841	106,101	1,894,943	4,754	1,899,698
Intersegment revenue	11,248	—	11,248	-11,248	—
Total	1,800,090	106,101	1,906,192	-6,493	1,899,698
Operating profit (loss)	80,375	18,134	98,509	-4,770	93,739
Finance income					10,319
Finance costs					-258,575
Share of profit (loss) of					-17,464

investments accounted for using equity method	
Profit (loss) before tax	-171,981

(3) Information by Region

The breakdown of revenue from external customers by region is as follows:

(Unit: Thousand yen)

		For the three months ended March 31, 2024	For the three months ended March 31, 2025
Digital consultancy business	APAC	2,889,153	1,543,600
	AMER	194,378	249,995
Other business	APAC	95,620	106,101
Total		3,179,153	1,899,698

** Figures for APAC and AMER are external revenues of the offices in each region.

** As described in "(5) Notes to the Condensed Quarterly Consolidated Financial Statements, 2. Basis of Preparation of Condensed Quarterly Consolidated Financial Statements, (3) Changes in Presentation," the Group previously classified its geographical regions of operation into three categories: "APAC," "EMEA," and "AMER." However, from the first quarter of the current fiscal year, the Group has changed its presentation method to include revenue previously classified as "EMEA" within "APAC." Accordingly, segment information for the same quarter of the previous year has been restated based on the revised classification method.

8. Earnings per Share

(1) Basis for Calculating Basic Earnings per Share

Basic earnings per share and the basis for calculation are as follows:

(Unit: Thousand yen)

	For the three months ended March 31, 2024 (from January 1, 2024 to March 31, 2024)
Profit (loss) attributable to ordinary shareholders of parent	
Profit attributable to owners of parent	-340,633
Profit not attributable to ordinary shareholders of parent	—
Profit used for calculating earnings per share	-340,633
Average number of shares outstanding during the period	34,326,950 shares
Basic earnings (loss) per share	
Basic earnings (loss) per share	-9.92 yen

(Unit: Thousand yen)

	For the three months ended March 31, 2025 (from January 1, 2025 to March 31, 2025)
Profit (loss) attributable to ordinary shareholders of parent	
Profit attributable to owners of parent	-137,846
Profit not attributable to ordinary shareholders of parent	—
Profit used for calculating earnings per share	-137,846
Average number of shares outstanding during the period	44,354,884 share
Basic earnings (loss) per share	
Basic earnings (loss) per share	-3.11 yen

No transaction affecting the earnings per share took place between the end of the consolidated fiscal year under review and the date on which the consolidated financial statements were approved.

(1) Basis for Calculating Diluted Earnings per Share

Diluted earnings per share and the basis for calculation are as follows:

(Unit: Thousand yen)

	For the three months ended March 31, 2024 (from January 1, 2024 to March 31, 2024)
Profit (loss) attributable to ordinary shareholders (diluted)	
Profit used for calculation of basic earnings per share	-340,633

	For the three months ended March 31, 2024 (from January 1, 2024 to March 31, 2024)
Adjustments to profit	—
Profit used for calculating diluted earnings per share	-340,633
Average number of shares outstanding during the period	34,326,950 share
Dilutive effect	—
After adjustment for dilutive effect	34,326,950 share
Diluted earnings per share	
Diluted earnings per share	-9.92 yen

(Unit: Thousand yen)

	For the three months ended March 31, 2025 (from January 1, 2025 to March 31, 2025)
Adjustments to profit	
Profit used for calculating diluted earnings per share	-137,846
	—
Average number of shares outstanding during the period	-137,846
Dilutive effect	
After adjustment for dilutive effect	44,354,884 share
	—
Diluted earnings per share	44,354,884 share
Diluted earnings per share	
Adjustments to profit	
Profit used for calculating diluted earnings per share	-3.11 yen

No transaction affecting the earnings per share took place between the end of the consolidated fiscal year under review and the date on which the consolidated financial statements were approved.

9. Loss of Control

a. For the three months ended March 31, 2024 (from January 1, 2024 to March 31, 2024)

Not applicable.

b. For the three months ended March 31, 2025 (from January 1, 2025 to March 31, 2025)

Not applicable.

10. Subsequent Events

Not applicable.

11. Notes about Premise of a Going Concern

As part of the organizational and structural reforms implemented to promptly resolve significant operating losses and negative operating cash flows for two consecutive periods, the Group has been scrutinizing the current and future profitability of each subsidiary belonging to the relevant regions and is continuously executing a fundamental group reorganization.

As a result, in the previous fiscal year, the Group recorded an impairment loss of 4,320,639 thousand, mainly on goodwill and fixed assets, and reported significant operating losses and a net loss for the period. Consequently, the Group had a negative equity of 775,015 thousand at the end of the first three months of the current fiscal year.

Accordingly, a situation that casts significant doubt on the premise of a going concern exists.

The Group is implementing the following measures to resolve this situation:

(1) Business Reorganization

As a business reorganization measure to reduce management risks and transition to a management style that balances sound profit generation with growth by concentrating on highly profitable and high-growth businesses, the Group has implemented bankruptcy proceedings for consolidated subsidiaries and share transfers.

(2) Measures to Improve Business Profitability

As announced in the "Notice on Personnel Reduction and Other Rationalization Measures and Policy Decision on Dissolution of Consolidated Subsidiaries" dated May 31, 2024, the Group is strengthening efforts to acquire projects by specializing in the healthcare and life sciences fields, as well as the financial field, where it is establishing its strengths.

In addition, with the goal of establishing a stable growth foundation, the Group is investing in its own technologies that enable differentiation in areas such as location information and pricing strategies, while also promoting the globalization of solutions developed from past DX project achievements. Furthermore, to achieve sales growth and profit expansion from fiscal 2025, the Group is working to enhance the value of its SoE (Systems of Engagement) areas of expertise, strengthen data domains such as location data and purchasing behavior data like price sensitivity, and advance the development of enterprise systems utilizing generative AI. Concurrently, the Group strives to continuously strengthen its technological and sales capabilities by leveraging investments and partnerships with advanced technology companies, consulting firms, and business corporations.

(3) Group-wide Cost Reduction Measures Including Business Operations

As announced in the "Notice on Personnel Reduction and Other Rationalization Measures and Policy Decision on Dissolution of Consolidated Subsidiaries" dated May 31, 2024, the Group is proceeding with group-wide personnel reductions, including a reduction of over 50% in EMEA (Europe and the Middle East) by December 31, 2024, based on the headcount as of March 31, 2024, with a focus on non-operational personnel. At the same time, the Group is implementing office downsizing and IT cost reviews to reduce fixed costs. As a result, for continuing consolidated subsidiaries, excluding temporary expenses, selling, general and administrative expenses decreased by 445,278 thousand compared to the same quarter of the previous year. The Group will continue to strive for further cost reductions by proceeding with office downsizing and IT cost reviews.

(4) Financial Aspects

To promptly improve the Group's profitability and financial condition, as announced in the "Notice Regarding Issuance of the 81st Series of Stock Acquisition Rights (with Exercise Price Adjustment Clause) through Third-Party Allotment" dated September 19, 2024, the Group conducted equity financing through the exercise of a portion of the 81st stock acquisition rights allotted to EVO FUND on October 7, 2024. As of May 9, 2025, 161,600 stock acquisition rights of the 81st series have been exercised, raising 1,372,270 thousand.

Regarding the early resolution of negative equity through various equity financing measures, including the above, the Group intends to continue actively implementing and considering fundraising, also keeping in mind future growth investments.

Furthermore, as announced in the "Notice Regarding Completion of Payment for Issuance of Preferred Shares by Third-Party Allotment, Reduction of Stated Capital and Capital Reserve, and Disposition of Surplus" dated March 28, 2025, the Board of Directors resolved on January 15, 2025, to issue Class A preferred shares totaling 3,300,000 thousand to The San-in Godo Bank, Ltd. as the allottee.

The issuance of these preferred shares was conditional upon the approval of the proposal related to the issuance of said preferred shares and the proposal related to the partial amendment of the Articles of Incorporation, including the establishment of new provisions, at the annual general meeting of shareholders held on March 27, 2025. These proposals were approved on March 27, 2025, and the payment was completed on March 28, 2025. Accordingly, as announced in the "Notice Regarding

Completion of Payment for Issuance of Preferred Shares by Third-Party Allotment, Reduction of Stated Capital and Capital Reserve, and Disposition of Surplus" dated March 28, 2025, the reduction of stated capital and capital reserve has taken effect.

The Group has requested and received deferrals on the repayment of principal on borrowings from financial institutions and has discussed business and funding plans. The Group will continue to maintain close relationships with financial institutions and strive to receive their ongoing support.

However, as these countermeasures are still in progress and final agreements have not been reached with all relevant parties, it is recognized that significant uncertainty exists regarding the premise of a going concern at this time. The quarterly consolidated financial statements have been prepared on a going concern basis and do not reflect the impact of the significant uncertainty related to the premise of a going concern.