Translation

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Summary of Consolidated Financial Results for the Six Months Ended June 30, 2024 (IFRS)

August 14, 2024

Company name: Monstarlab Holdings Inc.
Stock exchange listing: Tokyo Stock Exchange
Stock code: 5255 URL https://monstar-lab.com/jp/
Representative: Representative Director/Group CEO Hiroki Inagawa
Inquiries: CFO Sumito Suzuki TEL 03(4455)7243

Scheduled date to file Semi-annual Securities Report: August 14, 2024
Scheduled date to commence dividend payments: —
Preparation of supplementary material on financial results: Yes
Holding of financial results meeting: Yes (for analysts and institutional investors [on-demand video])

(Amounts less than one million yen are rounded down)

1. Consolidated Financial Results for the Six Months Ended June 30, 2024 (January 1, 2024, to June 30, 2024)

(1) Consolidated operating results

(Percentages represent year-on-year changes)

	Revenue		Operating profit		Profit before tax		Profit (loss)		Profit attributable to owners of parent		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended June 30, 2024	5 ,721	-15.4	- 6 990	—	- 5,773	—	-5,911	—	-5,894	—	- 6,395	—
Six months ended June 30, 2023	6,760	5.2	-468	—	123	—	52	—	7	—	-116	—

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	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2024	-171.70	-171.70
Six months ended June 30, 2023	0.23	0.23

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of total equity attributable to owners of parent to total assets
	Million yen	Million yen	Million yen	%
As of June 30, 2024	10,784	-2,593	-2,570	—
As of December 31, 2023	14,461	3,706	3,711	25.7

2. Dividends

	Dividends per share				
	First quarter	Second quarter	Third quarter	Fourth quarter	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2023	—	0.00	—	0.00	0.00
Fiscal year ended December 31, 2024	—	0.00			
Fiscal year ended December 31, 2024 (forecast)			—	0.00	0.00

Revision of most recent dividend forecast: No

Notes

(1) Significant changes in subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): No

(2) Changes in accounting policies and accounting estimates

(i) Changes in accounting policies requested by IFRS : No

(ii) Changes in accounting polices other than (i) above : No

(iii) Changes in accounting estimates : No

(3) Number of issued shares (common stock)

(i) Number of issued shares at end of period (including treasury stock)	As of June 30, 2024	34,326,950 shares	As of December 31, 2023	34,326,950 shares
(ii) Number of shares of treasury stock at end of period	As of June 30, 2024	0 shares	As of December 31, 2023	0 shares
(iii) Average number of shares outstanding during the period	Six months ended June 30, 2024	34,326,950 shares	Six months ended June 30, 2023	31,761,950 shares

The interim financial statements are not subject to interim review by a certified public accountant or auditing firm.

Explanation regarding appropriate use of earnings forecasts and other special notes
(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, it 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, refer to Section 1, "Qualitative Information on Interim Financial Results," Subsection 3, "Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information" on pg. 2 of the Appendix.

Contents of Appendix

1. Qualitative Information on Interim Financial Results

(1) Explanation of Operating Results

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

During the Six months ended June 30, 2024, the global economy and the Japanese economy continued to face uncertain outlook as they were affected the protracted situation in Ukraine and Russia and the acceleration of monetary tightening in response to global inflation, although normalization of social and economic activities were well underway due in part to the reclassification of COVID-19 in Category 5, the same category as seasonal flu, under the Infectious Diseases Prevention Act. On the other hand, in the IT industry, there continues to be a healthy corporate appetite for investment in digital transformation (DX) on the back of increasing demand for DX that is directly linked to management strategies.

In the current business environment, the Group is focusing on the digital consultancy business as its main business, primarily targeting corporations and local governments to support DX aligned with their business issues and new business needs. The Group is also pursuing other business, including product business, globally across 19 countries and regions (as of June 30, 2024). The Group has divided the geographic areas in which it operates its digital consultancy business into three regions: APAC (Japan and Asia Pacific), EMEA (Europe, Middle East, and Africa), and AMER (North, Central, and South America).

During the six months ended June 30, 2024, the Group continued to win projects in the data and enterprise system domains in APAC through an approach that utilizes generative AI. However, as they have not reached the development phase yet, their contribution to revenue has been too small to compensate for the decrease in revenue from existing projects. As a result, revenue in the region has decreased. In EMEA, as the Group focused on executing structural reforms, project deliveries and sales activities stagnated or stopped, and revenue in the region decreased significantly. As a result, overall revenue decreased 15.4% YoY.

The Group has been actively hiring people in EMEA and AMER as part of its up-front investment, assuming fast growth in these regions. However, the pace of growth has been slower than initially expected, and the number of non-active personnel has increased. As a result, our operations in these regions have continued to be in the red. Therefore, the Group is in the process of reducing the number of personnel by 230 in total including closure of bases as part of structural reforms. As a result of these structural reforms, management expects fixed cost to be reduced by approximately 820 million yen per quarter starting from the third quarter of the current fiscal year. The Group has already made significant progress toward return to profitability in all regions in the fourth quarter. For example, under the cost structure after the structural reforms, AMER recorded a profit in June on a monthly basis.

The Company has recognized expenses of approximately 770 million yen for these structural reforms, which mainly consist of retirement payments, for the first six months of the current fiscal year. Moreover, the EMEA and AMER segments can no longer be expected to generate profits that were initially planned. Consequently, the Company has recognized impairment losses of 1,018 million yen and 1,743 million yen on goodwill pertaining to Monstarlab LLC and Genieology Design DMCC, respectively, which are consolidated subsidiaries of the Company. At the same time, Monstarlab Information Technology LLC, a consolidated subsidiary of the Company, has recognized impairment losses of 938 million yen on its goodwill. In addition, several consolidated subsidiaries and sub-subsidiaries have recognized impairment losses on non-current assets of 441 million yen in total. In total, the Group has recognized impairment losses of 4,140 million yen.

As for operating profit, the Group recorded an operating loss of 6,990,797 thousand yen due to the decrease in revenue and the recognition of structural reform expenses and impairment, which have been separately disclosed.

In summary, for the six months ended June 30, 2024, the Group recorded revenue of 5,721,416 thousand yen (-15.4% YoY), operating loss of 6,990,797 thousand yen (an operating loss of 468,654 thousand yen for the same period last year), loss before tax of 5,773,852 thousand yen (a profit before tax of 123,369 thousand yen for the same period last year), and loss attributable to owners of parent of 5,894,047 thousand yen (a profit attributable to owners of parent of 7,857 thousand yen for the same period last year).

The operating results for the digital consultancy business by region are as shown below.

1. APAC

For the six months under review, revenue was 3,183,833 thousand yen (-11.9% YoY), and operating profit was 3,134 thousand yen (-96.4% YoY).

Revenue decreased for the following reasons: First, revenue from existing clients decreased due to the completion of some of the projects acquired in or before 2022 as the project lifecycle has run its course upon, for example, the completion of the development phase. Second, many of the strategic projects that we focused on acquiring during the period from 2022 to the first half of 2023 have been completed before they reach the development phase, further reducing revenue from existing clients. Third, in order to counteract the decrease in revenue from existing clients, we have made progress since the second half of 2023 in acquiring new revenue sources by acquiring projects in the data and enterprise system domains through the acquisition of new development projects and an approach that utilizes generative AI. However, as it takes some time for these projects to reach the development phase, revenue from these new projects has not been sufficient to compensate for the decrease in revenue due to the completion of existing projects. As for profits, we achieved an improvement in cost structure of approximately 200 million yen compared to the same period last year as we continued to implement thorough cost control.

In the short term, we aim to restore revenue for the coming quarters by strengthening our sales organization and marketing, focusing particularly on development projects. Toward 2025, we will work to become a fast-growing business again as we were in years through 2022 by enhancing the data and enterprise system domains and implementing a global direct sales approach through development bases in APAC.

2. EMEA

For the six months under review, revenue was 1,884,846 thousand yen (-24.7% YoY), and operating loss increased to 3,677,151 thousand yen compared to 718,923 thousand yen for the same period last year.

In Europe and the Middle East, due to the repercussions of the execution of structural reform, including the closure of our German base and reduction in headcount by more than half in EMEA, project delivery activities and orders for new projects have stagnated or stopped in recent months. As a result, revenue decreased significantly. In the life sciences and finance domains, which are our focus domains, we have identified clients with strong potential for revenue growth, and our dedicated team has executed a strategy designed to increase revenue per client. As a result, the pipeline is growing steadily.

As for operating profit, we recorded a significant operating loss due to the decrease in revenue as well as the recognition of structural reform expenses and impairment losses on goodwill and non-current assets. It is not until the third quarter of the current fiscal year that the effect of the structural reforms that we have implemented will be reflected in operating profit. However, our cost structure has steadily improved due to the structural reforms, and we will continue to implement structural reforms in order to ensure that we will achieve return to profitability in all regions in the fourth quarter of the current fiscal year on a consolidated basis.

3. AMER

For the six months under review, revenue was 459,652 thousand yen (+8.3% YoY), and operating loss increased to 289,745 thousand yen compared to 95,985 thousand yen for the same period last year.

As projects for existing clients enter the development phase, revenue is on track to a stable growth path. In addition, as we are making progress in acquiring projects in the life sciences and finance domains, which are our focus domains, and in leading-edge domains with the utilization of AI and data, revenue is increasing steadily.

As for operating profit, although we have recorded a significant operating loss due to structural reforms, profit is improving steadily. Under the cost structure after the structural reforms, we recorded a profit in June on a monthly basis.

(2) Explanation of Financial Position

1) Status of assets, liabilities, and equity

The status of various items at the end of the consolidated interim financial fiscal year under review are as shown below.

(Current assets)

The balance of current assets was 5,490,444 thousand yen (vs. 5,836,139 thousand yen at the end of the previous fiscal year). This includes cash and cash equivalents of 1,187,526 thousand yen (vs. 1,783,264 thousand yen at the end of the previous fiscal year) and trade and other receivables of 2,488,865 thousand yen (vs. 2,600,114 thousand yen at the end of the previous fiscal year).

(Non-current assets)

The balance of non-current assets was 5,294,339 thousand yen (vs. 8,624,916 thousand yen at the end of the previous fiscal year). This includes goodwill of 699,354 thousand yen (vs. 3,964,762 thousand yen at the end of the previous fiscal year) and other financial assets of 3,433,097 thousand yen (vs. 3,083,563 thousand yen at the end of the previous fiscal year).

(Current liabilities)

The balance of current liabilities was 10,918,139 thousand yen (vs. 7,932,462 thousand yen at the end of the previous fiscal year). This includes trade and other payables of 993,088 thousand yen (vs. 1,132,648 thousand yen at the end of the previous fiscal year) and bonds and borrowings of 7,331,235 thousand yen (vs. 4,739,564 thousand yen at the end of the previous fiscal year).

(Non-current liabilities)

The balance of non-current liabilities was 2,460,554 thousand yen (vs. 2,822,565 thousand yen at the end of the previous fiscal year). This includes bonds and borrowings of 1,088,223 thousand yen (vs. 1,493,246 thousand yen at the end of the previous fiscal year) and lease liabilities of 333,956 thousand yen (vs. 549,435 thousand yen at the end of the previous fiscal year).

(Total equity)

Total equity was minus 2,593,909 thousand yen (vs. 3,706,027 thousand yen at the end of the previous fiscal year). This includes share capital of 1,922,586 thousand yen (vs. 1,922,586 thousand yen at the end of the previous fiscal year), capital surplus of 10,595,831 thousand yen (vs. 10,499,729 thousand yen at the end of the previous fiscal year), and retained earnings of minus 14,452,409 thousand yen (vs. minus 8,558,362 thousand yen at the end of the previous fiscal year).

2) Status of cash flows

Cash and cash equivalents (hereinafter referred to as "net cash") at the end of the consolidated interim financial fiscal year under review was 1,187,526 thousand yen (vs. 1,783,264 thousand yen at the end of the previous consolidated fiscal year).

Cash flow activities and contributing factors during the consolidated interim financial fiscal year under review were as shown below.

(Cash flows from operating activities)

Net cash used in operating activities totaled minus 2,543,634 thousand yen (vs. 1,951,381 thousand yen in the same period last year). The main factors were a profit before tax of minus 5,773,852 thousand yen (vs. 123,369 thousand yen for the same period last year), an increase in impairment loss of 4,140,388 thousand yen (vs. 0 yen for the same period last year), a decrease in trade and other receivables of 306,080 thousand yen (vs. a decrease of 794,895 thousand yen for the same period last year), an increase in contract assets of minus 142,810 thousand yen (vs. an increase of minus 400,422 thousand yen for the same period last year), an increase in provision of 301,891 thousand yen (vs. a increase of 72,877 thousand yen for the same period last year), and income taxes paid of 86,877 thousand yen (319,780 thousand yen for the same period last year).

(Cash flows from investing activities)

Net cash used in investing activities totaled minus 120,948 thousand yen (vs. minus 539,559 thousand yen in the same period last year). The main factors include purchase of property, plant and equipment of 24,285 thousand yen (vs. 55,219 thousand yen for the same period last year) and purchase of intangible assets of 85,990 thousand yen (vs. 73,787 thousand yen for the same period last year).

(Cash flows from financing activities)

Net cash provided by financing activities totaled 1,989,121 thousand yen (vs. 3,113,844 thousand yen in the same period last year). The main factors include proceeds from short-term borrowings of 2,812,279 thousand yen (vs. 1,430,298 thousand yen for the same period last year), repayments of long-term borrowings of minus 377,172 thousand yen (vs. minus 367,061 thousand yen for the same period last year), redemption of bonds of minus 250,000 thousand yen (vs. minus 64,500 thousand yen for the same period last year), and repayments of lease liabilities of minus 195,986 thousand yen (vs. minus 193,221 thousand yen for the same period last year).

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

The Group achieved revenue growth at the average rate of 40% per year for the period of six years from 2016 to 2022. However, in the fiscal year ended December 31, 2023, we focused more on profitability improvement than revenue growth following the slowdown in growth by revising strategies, including adjusting the balance of project phases and focusing on large long-term projects while implementing a structural reform to improve profitability. Going forward, we aim to realize a growth story of continued fast growth while ensuring profitability. To this end, we regard the fiscal year ending December 31, 2024 to be a period in which we will put in place a growth foundation to realize fast growth while ensuring profitability starting in the fiscal year ending December 31, 2025, and we are considering investments and reorganizations to improve our capabilities and reconstruction of our profit structure, in addition to the formulation of a medium- to long-term business strategy, including the rebalancing of business portfolios for all regions (APAC/EMEA/AMER). More specifically, we will work to invest in technologies that will enable us to achieve differentiation, strengthen our solution capability in the enterprise domain, and bolster our recruitment strengths. In addition, we are considering the implementation of an organizational/structural reform designed to drastically reinforce our profit structure. For this reason, we have determined that it is difficult for us to reasonably revise forecasts by reflecting the impact of uncertainties associated with the implementation of these strategies at this point and have decided to postpone the announcement of earnings forecast for the fiscal year ending December 31, 2024 until a later date. Once we are prepared to disclose a reasonable forecast, we will promptly announce it.

2. Consolidated interim Financial Statements and Notes

(1) Consolidated interim Statement of Financial Position

(Unit: Thousand yen)

	Note	As of December 31, 2023	As of June 30, 2024
Assets		\	
Current assets			
Cash and cash equivalents		1,783,264	1,187,526
Trade and other receivables		2,600,114	2,488,865
Contract assets		922,131	1,205,583
Inventories		60,345	60,000
Other current assets		470,282	548,469
Total current assets		5,836,139	5,490,444
Non-current assets			
Property, plant, and equipment		258,783	158,519
Right-of-use assets		356,249	89,357
Goodwill		3,964,762	699,354
Intangible assets		651,053	629,628
Other financial assets	5	3,083,563	3,433,097
Deferred tax assets		49,099	32,395
Other non-current assets		261,403	251,987
Total non-current assets		8,624,916	5,294,339
Total assets		14,461,055	10,784,784

(Unit: Thousand yen)

	Note	As of December 31, 2023	As of June 30, 2024
Liabilities and equity			
Current liabilities			
Trade and other payables		1,132,648	993,088
Contract liabilities		211,462	269,951
Bonds and borrowings	5	4,739,564	7,331,235
Lease liabilities		294,579	416,456
Income taxes payable		181,006	18,211
Allowance		51,885	390,954
Other current liabilities		1,321,315	1,498,239
Total current liabilities		7,932,462	269,951
Non-current liabilities			
Bonds and borrowings		1,493,246	1,088,223
Lease liabilities		549,435	333,956
Allowance		130,966	119,661
Deferred tax liabilities		108,878	314,646
Other non-current liabilities		540,039	604,066
Total non-current liabilities		2,822,565	2,460,554
Total liabilities		10,755,027	13,378,694
Equity			
Share capital		1,922,586	1,922,586
Capital surplus		10,499,729	10,595,831
Retained earnings		-8,558,362	-14,452,409
Other components of equity		-152,870	-636,255
Total equity attributable to owners of parent		3,711,083	-2,570,247
Non-controlling interests		-5,055	-23,662
Total equity		3,706,027	-2,593,909
Total liabilities and equity		14,461,055	10,784,784

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

(Consolidated interim Statement of Profit or Loss)

(Unit: Thousand yen)

	Note	Six months ended June 30, 2023	Six months ended June 30, 2024
Revenue	7	3,638,355	5,721,416
Cost of sales		-2,553,655	-5,174,063
Gross profit		1,084,700	547,352
Selling, general, and administrative expenses		-1,470,505	-3,414,422
Other income		785,684	25,956
Other expenses		-46,391	-4,149,683
Operating profit (loss)		353,487	-6,990,797
Finance income		27,326	1,310,613
Finance costs		-128,997	-68,095
Share of loss (profit) of entities accounted for using equity method		—	-25,572
Profit (loss) before tax		251,817	-5,773,852
Income tax expenses		-67,745	-138,022
Profit (loss)		184,071	-5,911,874
Profit (loss) attributable to			
Owners of parent		197,169	-5,894,047
Non-controlling interests		-13,097	-17,827
Profit (loss)		184,071	-5,911,874
Earnings (loss) per share			
Basic earnings (loss) per share (yen)	8	6.21	-171.70
Diluted earnings (loss) per share (yen)	8	6.14	-171.70

(Consolidated interim Statement of Comprehensive Income)

(Unit: Thousand yen)

	Note	Six months ended June 30, 2023	Six months ended June 30, 2024
Profit (loss)		184,071	-5,911,874
Other comprehensive income			
Items that may not be reclassified to profit or loss:			
Remeasurement of defined benefit plans		11	54
Total of items		11	54
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		-26,320	-484,092
Total of items		-26,320	-484,092
Other comprehensive income, net of tax		-26,308	-484,038
Total comprehensive income		157,762	-6,395,912
Total comprehensive income attributable to			
Owners of parent		172,748	-6,377,433
Non-controlling interests		-14,985	-18,479
Total comprehensive income		157,762	-6,395,912

(3) Consolidated interim Statement of Changes in Equity

For the Six months ended June 30, 2023 (From January 1, 2023 to June 30, 2023)

(Unit: Thousand 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	Remeasurement of defined benefit plans	Total other components of equity	Total equity attributable to owners of parent		
Balance as of January 1, 2023		1,065,754	9,708,785	-6,203,033	12,137	513	12,651	4,584,158	-491,733	4,092,424
Profit (loss)		—	—	7,857	—	—	—	7,857	44,610	52,467
Other comprehensive income		—	—	—	-165,041	27	-165,014	-165,014	-4,417	-169,431
Total comprehensive income		—	—	7,857	-165,041	27	-165,014	-157,156	40,193	-116,963
Issuance of new shares		854,164	844,564	—	—	—	—	1,698,729	—	1,698,729
Share-based payment Transactions		—	166,875	—	—	—	—	166,875	—	166,875
Loss of control of subsidiaries		—	131,326	—	—	—	—	131,326	4,025	135,352
Other		—	-443,158	—	—	—	—	-443,158	443,093	-64
Total transactions with owners and other transactions		854,164	699,608	—	—	—	—	1,553,772	447,119	2,000,892
Balance as of June 30, 2023		1,919,919	10,408,393	-6,195,176	-152,904	541	-152,362	5,980,774	-4,420	5,976,353

For the Six months ended June 30, 2024 (From January 1, 2024 to June 30, 2024)

(Unit: Thousand 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	Remeasurement of defined benefit plans	Total other components of equity	Total equity attributable to owners of parent		
Balance as of January 1, 2024		1,922,586	10,499,729	-8,558,362	-153,474	604	-152,870	3,711,083	-5,055	3,706,027
Profit (loss)		—	—	-5,894,047	—	—	—	-5,894,047	-17,827	-5,911,874
Other comprehensive income		—	—	—	-483,440	54	-483,385	-483,385	-652	-484,038
Total comprehensive income		—	—	-5,894,047	-483,440	54	-483,385	-6,377,433	-18,479	-6,395,912
Issuance of new shares		—	—	—	—	—	—	—	—	—
Share-based payment Transactions		—	96,102	—	—	—	—	96,102	—	96,102
Loss of control of subsidiaries		—	—	—	—	—	—	—	—	—
Other		—	—	—	—	—	—	—	-127	-127
Total transactions with owners and other transactions		—	96,102	—	—	—	—	96,102	-127	95,974
Balance as of June 30, 2024		1,922,586	10,595,831	-14,452,409	-636,914	658	-636,255	-2,570,247	-23,662	-2,593,909

(4) Consolidated interim Statement of Cash Flows

(Unit: Thousand yen)

	Note	Six months ended June 30, 2023	Six months ended June 30, 2023
Cash flows from operating activities			
Profit (loss) before tax		251,817	-5,773,852
Depreciation and amortization		107,107	205,544
Financial income and financial costs		24,430	4,140,388
Financial instrument valuation losses (gains)		-26,411	66,713
Foreign exchange losses (gains)		-114,732	-338,231
Gain on sale of shares of subsidiaries		-768,061	-1,175,377
Decrease (increase) in trade and other receivables		659,182	—
Increase (decrease) in trade and other payables		38,240	306,080
Decrease (increase) in inventories		925	-191,947
Decrease (increase) in contract assets		-520,159	361
Other changes		-213,722	-142,810
Subtotal		-561,383	301,896
Interest received		915	204,058
Interest paid		-15,014	-2,397,173
Corporate income taxes paid		-296,389	1,381
Cash flows from operating activities		-871,871	-60,964
Cash flows from investing activities			
Purchase of property, plant, and equipment		−32,285	-24,285
Purchase of intangible assets		−16,996	-85,990
Purchase of investment securities		−257,199	-10,672
Other		12,216	-120,948
Cash flows from investing activities		−294,264	-24,285
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings		229,917	2,812,279
Proceeds from long-term borrowings		600,000	—
Repayments of long-term borrowings		−177,382	-377,172
Redemption of bonds		−60,000	-250,000
Repayment of lease liabilities		−104,638	-195,986
Issuance of new shares		1,192,320	1,989,121
Cash flows from financing activities		1,680,215	79,723
Effect of exchange rate changes on cash and cash equivalents		20,732	-595,738
Net increase (decrease) in cash and cash equivalents		534,812	1,783,264
Cash and cash equivalents at beginning of period		2,724,484	1,187,526
Cash and cash equivalents at end of period		3,259,297	2,812,279

(5) Notes about Consolidated interim Financial Statements

1. Reporting entity

Monstarlab Holdings Inc. (the "Company") is a corporation (*kabushikikaisha*) located in Japan. The Company's registered head office is located in Shibuya-ku, Tokyo. The consolidated financial statements for the Six months ended June 30, 2024, cover the Company and its subsidiaries (collectively referred to as the "Group"). The principal business activities of the Group are described in “7. Operating Segments.”

2. Basis of preparation of consolidated financial statements

(1) Compliance with IFRS

The consolidated interim financial statements of the Group have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as prescribed in Article 93 of the Regulation on the Terminology, Forms, and Preparation Methods of Consolidated interim Financial Statements (Cabinet Office Order No. 64 of 2007), since the Group qualifies as a "specified company complying with designated international accounting standards" per Article 1-2 of the Regulation.

As the interim financial statements do not include all information required for annual consolidated financial statements, they should be used in combination with the consolidated financial statements for the fiscal year ended December 31, 2023.

The consolidated interim financial statements were approved by Representative Director/Group CEO Hiroki Inagawa and CFO Sumito Suzuki on August 14 , 2024.

(2) Functional currency and presentation currency

The Group's consolidated interim financial statements are presented in Japanese yen, which is the Group's functional currency. All financial information presented in Japanese yen is rounded to the nearest thousand yen.

3. Material accounting policies

The material accounting policies applied to the Group's consolidated interim financial statements are the same as those applied to the consolidated financial statements for the previous consolidated fiscal year.

4. Significant accounting judgements, estimates, and assumptions

In preparing the Group's consolidated interim 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 book values of assets or liabilities in future periods.

Any judgements, estimates, and assumptions that have a significant impact on the amounts of the consolidated interim financial statements are, in principle, the same as those pertaining to the consolidated financial statements for the previous fiscal year.

5. Fair values of financial instruments

1) Fair value measurement method

The fair values of financial instruments are measured as follows:

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

These are valued at their book values, which approximate the fair values due to their short maturities.

b. Equity shares

The fair values of equity shares for which an active market exists are calculated based on market price. The fair values of equity shares for which no active market exists are evaluated mainly based on the price in recent transactions between independent third parties.

c. Leasehold and guarantee deposits

The fair values of leasehold and guarantee deposits are determined by discounting future cash flows using interest rates based on appropriate indicators, such as deposit period and government bond yields.

d. Bonds

The fair values of bonds are determined by discounting the total amount of principal and interest using a rate that reflects the time to maturity and credit risk of the bond.

e. Long-term borrowings

The fair values of long-term borrowings are determined by discounting the total amount of principal and interest using the assumed rate that would be applied to a similar new loan.

2) Fair value hierarchy

Fair values of financial instruments are categorized as Level 1 to Level 3 based on a fair value hierarchy as follows:

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

Level 2: Fair values calculated using observable prices other than those included in Level 1, either directly or indirectly.

Level 3: Fair values calculated using a valuation technique that includes inputs which are not based on observable market data.

3) Financial Instruments measured at fair value on a recurring basis

(1) Fair value hierarchy

The following tables provide a breakdown of financial instruments by fair value hierarchy level.

For the fiscal year ended December 31, 2023

(Unit: Thousand yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Equity shares	—	—	2,619,451	2,619,451
Total	—	—	2,619,451	2,619,451
Liabilities:				
Financial liabilities measured with fair value through profit or loss				
Contingent consideration*	—	—	419,055	419,055
Total	—	—	419,055	419,055

For the Six months ended June 30, 2024

(Unit: Thousand yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Equity shares	—	—	2,957,683	2,957,683
Total	—	—	2,957,683	2,957,683
Liabilities:				
Financial liabilities measured with fair value through profit or loss				
Contingent consideration*	—	—	487,907	487,907
Total	—	—	487,907	487,907

* 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 interim statement of financial position.

(2) Reconciliation of Level 3 fair values

(Unit: Thousand yen)

	Equity shares	Contingent consideration
Balance as of January 1, 2023	245,120	698,536
Purchase	2,221,183	—
Sale	-33,033	—
Comprehensive income		
Profit (loss)	202,635	83,099
Other comprehensive income	—	—
Other	—	-357,955
Balance as of June 30, 2022	2,635,906	423,681
Gains or losses recognized in profit or loss in relation to financial instruments held on June 30, 2023	202,635	83,099

(Unit: Thousand yen)

	Equity shares	Contingent consideration
Balance as of January 1, 2024	2,619,451	419,055
Purchase	—	—
Sale	—	—
Comprehensive income		
Profit (loss)	338,231	68,852
Other comprehensive income	—	—
Other	—	—
Balance as of June 30, 2024	2,957,683	487,907
Gains or losses recognized in profit or loss in relation to financial instruments held on June 30, 2024	338,231	68,852

(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, 2023	
	Book value	Fair value
Assets:		
Financial assets measured with amortized cost		
Other financial assets	277,200	276,669
Liabilities:		
Bonds and borrowings	6,232,810	6,221,294

(Unit: Thousand yen)

	As of June 30, 2024	
	Book value	Fair value
Assets:		
Financial assets measured with amortized cost		
Other financial assets	284,593	282,877
Liabilities:		
Bonds and borrowings	8,419,458	8,397,865

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 Six months ended June 30, 2023 (From January 1, 2023 to June 30, 2023)

(Unit: Thousand yen)

	Digital consultancy business	Other business	Total	Adjustments	Amount on consolidated interim financial statement
Revenue					
Revenue from external customers	6,536,427	217,160	6,753,587	6,675	6,760,263
Inter-segment revenue	26,894	—	26,894	-26,894	—
Total	6,563,321	217,160	6,780,482	-20,219	6,760,263
Segment profit (loss)	-726,815	737,994	11,178	-479,833	-468,654
Finance income					635,038
Finance costs					-42,785
Share of loss (profit) of entities accounted for using equity method					-229
Profit (loss) before tax					123,369

For the Six months ended June 30, 2024 (From January 1, 2024 to June 30, 2024)

(Unit: Thousand yen)

	Digital consultancy business	Other business	Total	Adjustments	Amount on consolidated interim financial statement
Revenue					
Revenue from external customers	5,512,100	193,083	5,705,184	16,232	5,721,416
Inter-segment revenue	5,205	—	5,205	-5,205	—
Total	5,517,306	193,083	5,710,389	11,026	5,721,416
Segment profit (loss)	-3,964,731	19,111	-3,945,620	-3,045,177	-6,990,797
Finance income					1,310,613
Finance costs					-68,095
Share of loss (profit) of entities accounted for using equity method					-25,572
Profit (loss) before tax					-5,773,852

(3) Information by Region

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

(Unit: Thousand yen)

		Six months ended June 30, 2023	Six months ended June 30 2024
Digital consultancy business	APAC	3,614,088	3,183,833
	EMEA	2,504,684	1,884,846
	AMER	424,329	459,652
Other business	APAC	195,888	193,083
	AMER	21,272	—
Total		6,760,263	5,721,416

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

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)

	Six months ended June 30, 2023
Profit (loss) attributable to ordinary shareholders of parent	
Profit attributable to owners of parent	7,857
Profit not attributable to ordinary shareholders of parent	—
Profit used for calculating earnings per share	7,857
Average number of shares outstanding during the period	31,781,701 shares
Basic earnings (loss) per share	
Basic earnings (loss) per share	0.23 yen

On January 5, 2023, the Company carried out a one-to-50 stock split based on a resolution of the Board of Directors passed at its meeting held on November 21, 2022. Basic earnings (loss) per share, and diluted earnings (loss) per share shown above are calculated based on the assumption that the stock split was carried out at the beginning of the 18th term (fiscal year ended December 2023).

(Unit: Thousand yen)

	Six months ended June 30, 2024
Profit (loss) attributable to ordinary shareholders of parent	
Profit attributable to owners of parent	-5,894,047
Profit not attributable to ordinary shareholders of parent	—
Profit used for calculating earnings per share	-5,894,047
Average number of shares outstanding during the period	34,326,950 shares
Basic earnings (loss) per share	
Basic earnings (loss) per share	-171.70 yen

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

(2) Basis for Calculating Diluted Earnings per Share

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

(Unit: Thousand yen)

	Six months ended June 30, 2023
Profit (loss) attributable to ordinary shareholders (diluted)	
Profit used for calculation of basic earnings per share	7,857
Adjustments to profit	—
Profit used for calculating diluted earnings per share	7,857
Average number of shares outstanding during the period	31,781,701 shares
Dilutive effect	407,027 shares
After adjustment for dilutive effect	34,188,728 shares
Diluted earnings per share	
Diluted earnings per share	0.23 yen

On January 5, 2023, the Company carried out a one-to-50 stock split based on a resolution of the Board of Directors passed at its meeting held on November 21, 2022. Basic earnings (loss) per share, and diluted earnings (loss) per share shown above are calculated based on the assumption that the stock split was carried out at the beginning of the 18th term (fiscal year ended December 2023).

(Unit: Thousand yen)

	Six months ended June 30, 2024
Profit (loss) attributable to ordinary shareholders (diluted)	
Profit used for calculation of basic earnings per share	-5,894,047
Adjustments to profit	—
Profit used for calculating diluted earnings per share	-5,894,047
Average number of shares outstanding during the period	34,326,950 shares
Dilutive effect	— shares
After adjustment for dilutive effect	34,326,950 shares
Diluted earnings per share	
Diluted earnings per share	-171.70 yen

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

9. Loss of Control

a. Six months ended June 30, 2023 (From January 1, 2023 to June 30, 2023)

Consolidation-Type Merger

(1) Outline of the consolidation-type merger

The Board of Directors of the Company resolved at its meeting held on January 20, 2023, to carry out a consolidation-type merger ("the Transaction") in which Koala Labs, Inc, a consolidated subsidiary of the Company, was the absorbed company and Chowly Merger Sub, Inc., a wholly owned subsidiary of Chowly, Inc., was the surviving company, and the Transaction was completed on January 31, 2023. As a result, the Company forfeited control of Koala Labs, Inc. and received an allotment of shares of Chowly, Inc. as consideration.

1) Name of the acquiring company and its business

Name of the acquiring company: Chowly, Inc.

Business: Provision of POS integration software for restaurant chains

2) Name of the acquired company and its business

Name of the acquired company: Koala Labs, Inc

Business: Provision of order platform products for the food and beverage industry

3) Main reason for the consolidation-type merger

The Company decided to carry out the consolidation-type merger because it anticipated synergy between Koala, an order platform product for the food and beverage industry developed by its consolidated subsidiary Koala Labs, Inc., and Chowly, Inc., which provides POS integration software targeted at restaurant chains that is a different solution from Koala, which would drive further product growth.

4) Date of consolidation-type merger

January 31, 2023

5) Legal form of business combination

Consolidation-type merger between Chowly Merger Sub, Inc. and Koala Labs, Inc. with the former as the surviving company and the latter as the absorbed company

6) Other matters concerning the transaction overview

Number of shares owned and ratio of voting rights held by the Company before and after the consolidation-type merger

	Number of shares owned	Voting rights ownership ratio
Before the consolidation-type merger	—	—
After the consolidation-type merger	2,813,756 shares	9.8%

(2) Outline of applied accounting process

1) Amount of gain (loss) on sale

768,061 thousand yen

2) Fair book values of assets and liabilities pertaining to the sold subsidiary and breakdown of major categories

Assets held for sale: 834,430 thousand yen

Total assets: 834,430 thousand yen

Liabilities directly associated with assets held for sale: 15,347 thousand yen

Total liabilities: 15,347 thousand yen

3) Accounting process

The difference between the consolidated book value of the shares of Koala Labs, Inc. and fair value of the shares of Chowly, Inc. was recognized in “Other income” in the consolidated interim statement of profit or loss.

b. Six months ended June 30, 2024 (From January 1, 2024 to June 30, 2024)

Not applicable.

10. Subsequent Events

(Formulation of an action plan for group reorganization)

At its meeting held on August 14, 2024, the Board of Directors of the Company approved an action plan for further drastic group reorganization.

Reason for and outline of the formulation of an action plan for group reorganization

As stated in the "Notice of Recognition of Non-recurring Expenses for Reorganization, Including Personnel Reduction, and Impairment Losses and Reduction of Directors' Compensation" released on August 14, 2024, mainly due to the recognition of impairment losses of 4,140,388 thousand yen on goodwill and non-current assets, consolidated total equity of the Company was negative 2,593,909 thousand yen at the end of the six months under review.

In this situation, digital consulting business in EMEA (Europe and the Middle East) recorded revenue of 5,046,300 thousand yen and an operating loss of 2,567,075 thousand yen for the previous fiscal year. The continuation of such a significant operating loss has been a heavy burden on the Group's profit and cash flow.

On the back of these developments, in order to realize the improvement of profit structure and cash flow of the Group as soon as possible, the Company has formulated an action plan for further drastic group reorganization for the digital consulting business in EMEA (Europe and the Middle East) after closely evaluating the current and future profitability of each subsidiary belonging to the region.

As notified in the "Notice Concerning Company's Policy of Rationalization at Its Consolidated Subsidiaries, Including Personnel Reductions, and Decision on Policy for Dissolution of Consolidated Subsidiaries" released on May 31, 2024, although fast growth was expected in EMEA and AMER, the utilization rate declined due to such factors as significant delays in the start of large-scale projects, and the Group has recognized losses in recent months in these regions. Therefore, management has been implementing a fundamental review of the cost structure in these regions to achieve an early return to profitability by reducing the number of personnel, focusing mainly on non-active personnel, as well as downsizing offices and reviewing IT costs. In response to the formulation of the plan mentioned above, management plans to implement even more significant group reorganization than before in EMEA (Europe and the Middle East).

In addition, the Company plans to procure necessary funds for such group reorganization by borrowing additional funds from external institutions and/or raising funds through equity finance.

When any new important facts or decisions that should be disclosed arise going forward, we will promptly disclose them.

11. Notes on the Going Concern Assumption

As stated in "Notes about Quarterly Consolidated Financial Statements, 10. Subsequent Events," as part of reorganization and structural reforms that the Company is implementing for the purpose of early resolution of significant operating losses and negative cash flows from operating activities, which have continued for two consecutive fiscal years, the Company has formulated an action plan for further drastic group reorganization after closely evaluating the current and future profitability of each subsidiary belonging to the region.

As a result, the Company recorded a significant operating loss and a loss for the six months under review mainly due to the recognition of impairment losses of 4,140,388 thousand yen on goodwill and non-current assets for the six months. Consequently, the Company's total equity at the end of the six months under review was negative 2,593,909 thousand yen.

Therefore, there currently are circumstances that cast significant doubt on the Company's ability to continue as a going concern.

In order to remediate these circumstances, the Group will implement the following measures:

(1) Measures to improve business profitability

As announced in the "Notice Concerning Company's Policy of Reorganization at Its Consolidated Subsidiaries, Including Personnel Reductions, and Decision on Policy for Dissolution of Consolidated Subsidiaries" released on May 31, 2024, the Group is in the process of strengthening project acquisition, focusing entirely on the healthcare, life science, and finance domains, which are being established as domains of the Group's strength.

In addition, for the purpose of establishing a growth foundation by the end of 2024, the Group is converting past digital transformation project experience into solutions for global delivery while investing in proprietary technologies that will enable differentiation pertaining to location information, price strategy, etc.

Furthermore, in order to realize revenue and profit growth from 2025, the Company will strengthen its capability in the data domain, such as location data and purchase behavior data including price sensitivity, in order to increase the value of its services in the SoE domain, a domain in which the Company excels, and will also strengthen its enterprise system development capability by utilizing generative AI. At the same time, by levering capital relationships, alliances, etc., with state-of-the-art technology companies, consulting firms, and business companies, the Company will strive to hone its technological strength and sales capability on an ongoing basis.

(2) Measures to reduce business and corporate expenses

As announced in the "Notice Concerning Company's Policy of Reorganization at Its Consolidated Subsidiaries, Including Personnel Reductions, and Decision on Policy for Dissolution of Consolidated Subsidiaries" released on May 31, 2024, the Group is working to reduce its personnel throughout the Group, including personnel reduction by over 50% in EMEA (Europe and the Middle East), by September 30, 2024 compared to March 31, 2024 mainly focusing on non-active personnel while also downsizing offices and reviewing IT costs in order to reduce fixed cost.

With regard to those consolidated subsidiaries that will continue their business, we currently expect a personnel expense reduction effect of approximately 270 million yen per month and will also work to achieve further expense reduction by downsizing offices and reviewing IT costs going forward.

(3) Financing

As stated in "Notes about Quarterly Consolidated Financial Statements, 10. Subsequent Events," in order to improve the Group's profit structure and financial condition as soon as possible, the Company plans to procure necessary funds for the intended group reorganization by borrowing additional funds from external institutions and/or raising funds through equity finance.

In addition, the Company strives to maintain close relationships with its financial institutions in order to secure their continued support through negotiations with them on payment extension request, business plan, and financing plan.

The Company is also considering several means of equity finance for early resolution of negative total equity and intends to actively raise funds in anticipation of future growth investments. No specific schedule or size of any such arrangements concerning capital policy has been determined at this point, but they will be promptly notified once they are determined.

However, these measures are in the process of implementation and include those for which a final agreement has not been reached with parties concerned. Therefore, the Company recognizes the existence of significant uncertainty about the going concern assumption.

The consolidated financial statements for the six months under review have been prepared based on the assumption that the Company has the ability to continue as a going concern and do not reflect the impact of the significant uncertainty about the going concern assumption.