

Results of Operations for the Second Quarter of FY2024

Headwaters Co., Ltd.

August 22, 2024

Securities code: 4011

Table of Contents

01 — The History of Headwaters

- Past
- Present
- Future

02 — Highlights of FY2024 1H

- Accomplishments
- Improvements

03 — Challenges and Strategies

Appendix

01 — The History of Headwaters

- Past
- Present
- Future



Name	Headwaters Co., Ltd.
Established	November 2005
Representative:	Yosuke Shinoda, Representative Director
Head office	Shinjuku i-Land Tower 4F 5-1, 6-chome, Nishishinjuku, Shinjuku-ku, Tokyo
Capital	378 million yen
Number of employees	200 (all group companies, excluding contract and part-time employees)

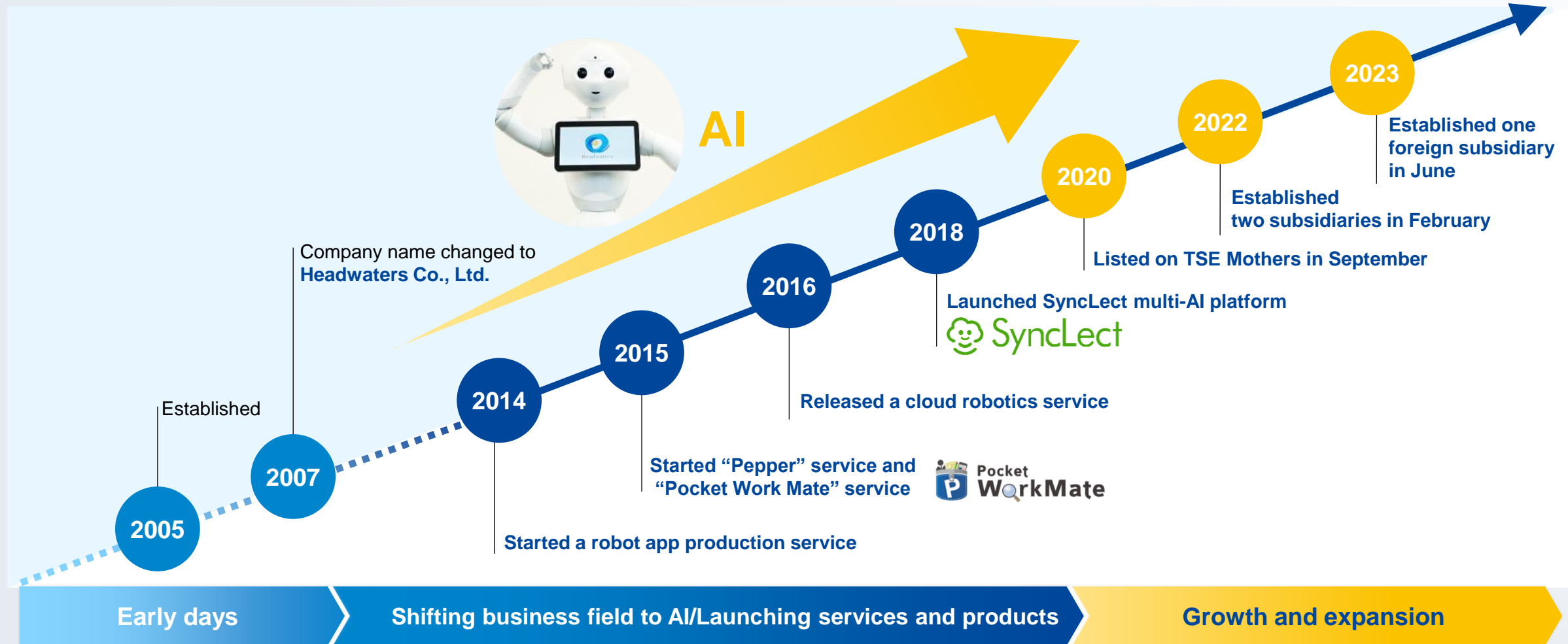
**Becoming
the center of industry,
headwaters.**

Engineering × Business = ∞

**Implement new technology
to the society**

▶ Our Commitments Since 2005

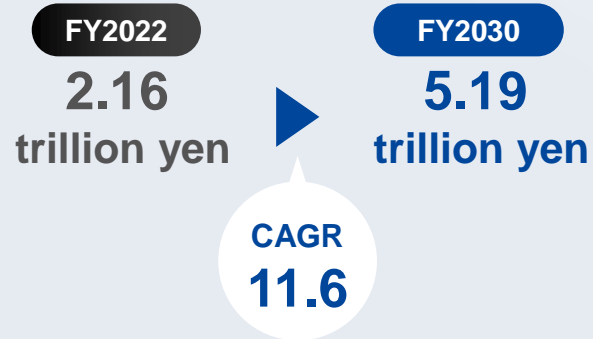
Headwaters is a front-runner in the field of AI, with abundant data, analytical methods, and development capabilities accumulated since the early days of AI.



▶ The Market Environment

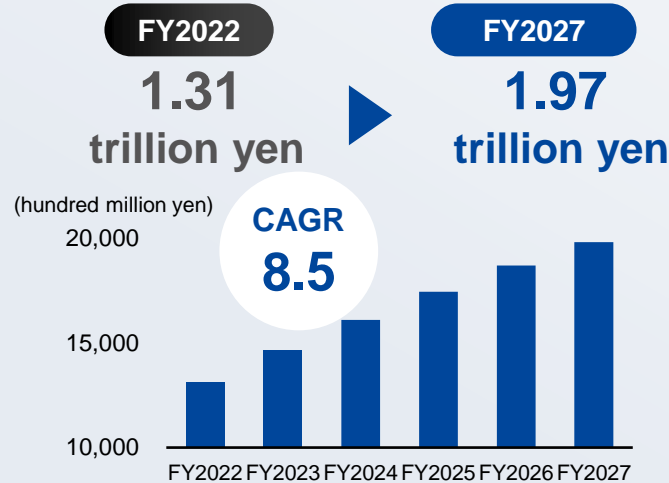
Growing need for DX and AI for raising manufacturing efficiency and becoming more competitive as Japan's aging population lowers the working age population
 Demand in the generative AI category is expected to increase by 15 times.

The DX Market in Japan



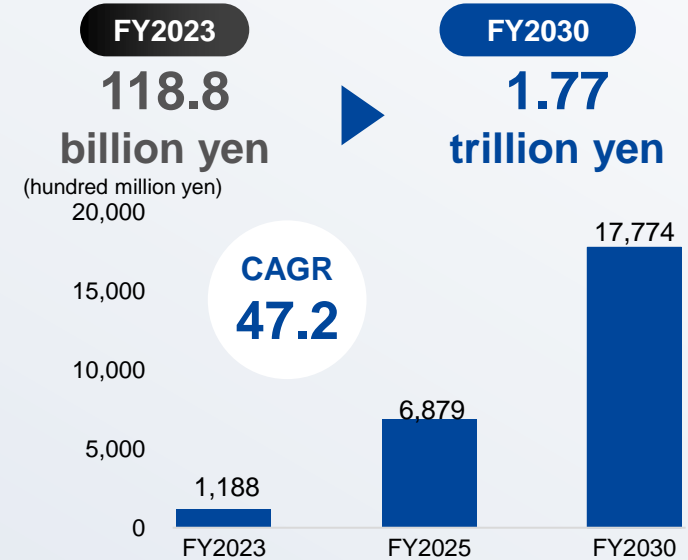
Industry-specific DX Market	CAGR
Manufacturing DX market	11.2
Distribution/Retail DX market	16.8
Transportation/Logistics DX market	13.5
Real estate DX market	12.4
Municipality DX market	19.0

The AI Business Market in Japan



AI Business Market in Japan	CAGR
Service market	8.2
Application market	8.4
Platform market	9.0

The generative AI Market in Japan

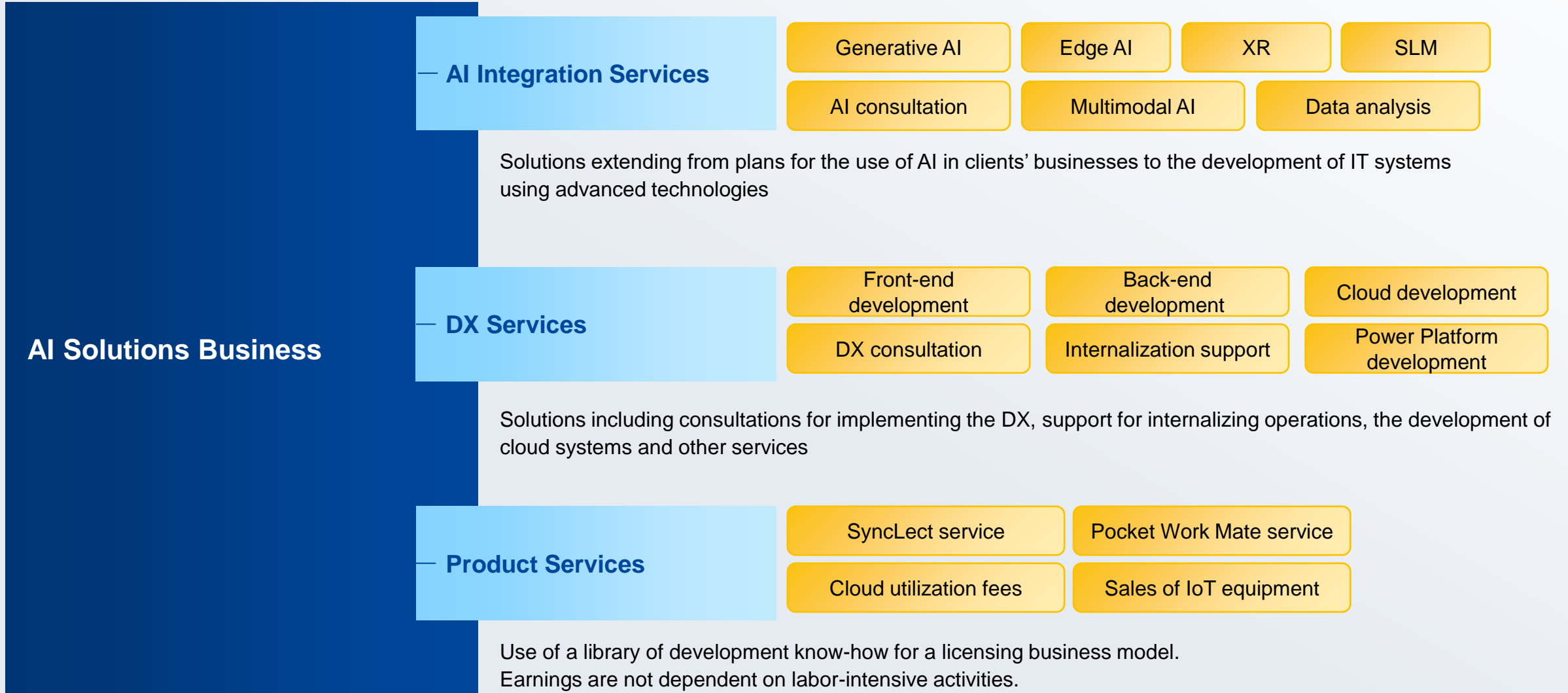


Generative AI Market in Japan	CAGR
Generative AI foundation model	46.0
Generative AI-related applications	46.6
Generative AI-related solutions services	52.2

Source: Compiled by Headwaters based on the "2022 Artificial Intelligence Business Comprehensive Survey," "Future Outlook of the 2022 Digital Transformation Market" by Fuji Chimera Research Institute Co., Ltd., "Survey on IT Personnel Supply and Demand" by Mizuho Information & Research Institute, Inc. and "2023 Survey of Trends in Key Business Sectors" by Japan Electronics and Information Technology Industries Association



Offering services by dividing our AI solutions business into three service categories and synergistically combining them

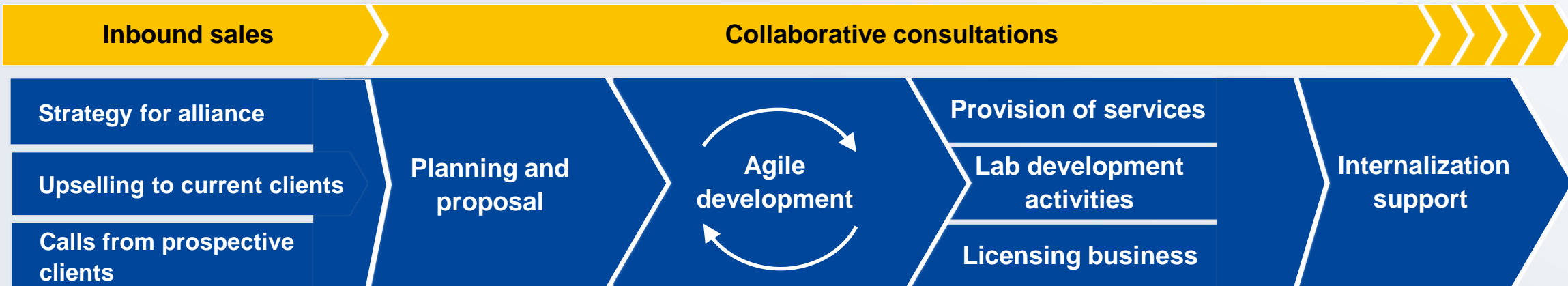
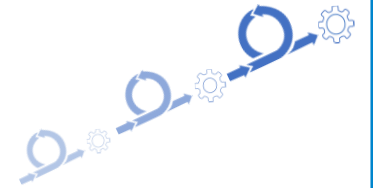


▶ AI Solutions Business

After engaging in extensive communication with our customers, Headwaters provides a highly practical system with “end-to-end” functionality

— The key points

- **Collaborative consultations** with clients to prevent misunderstandings that could lead to ambiguous requirements and unreasonably high expectations about the benefits of AI
- Enlargement of support capabilities for planning/proposal and DX execution at projects requiring generative AI, XR, edge AI and other elements to meet clients’ needs
- **Agile development methodology** for the ability to make updates using the latest technologies whenever possible
- Use **inbound sales** backed by active IR/internet disclosure of info about advanced technologies to enable engineers to use technologies for effective sales activities

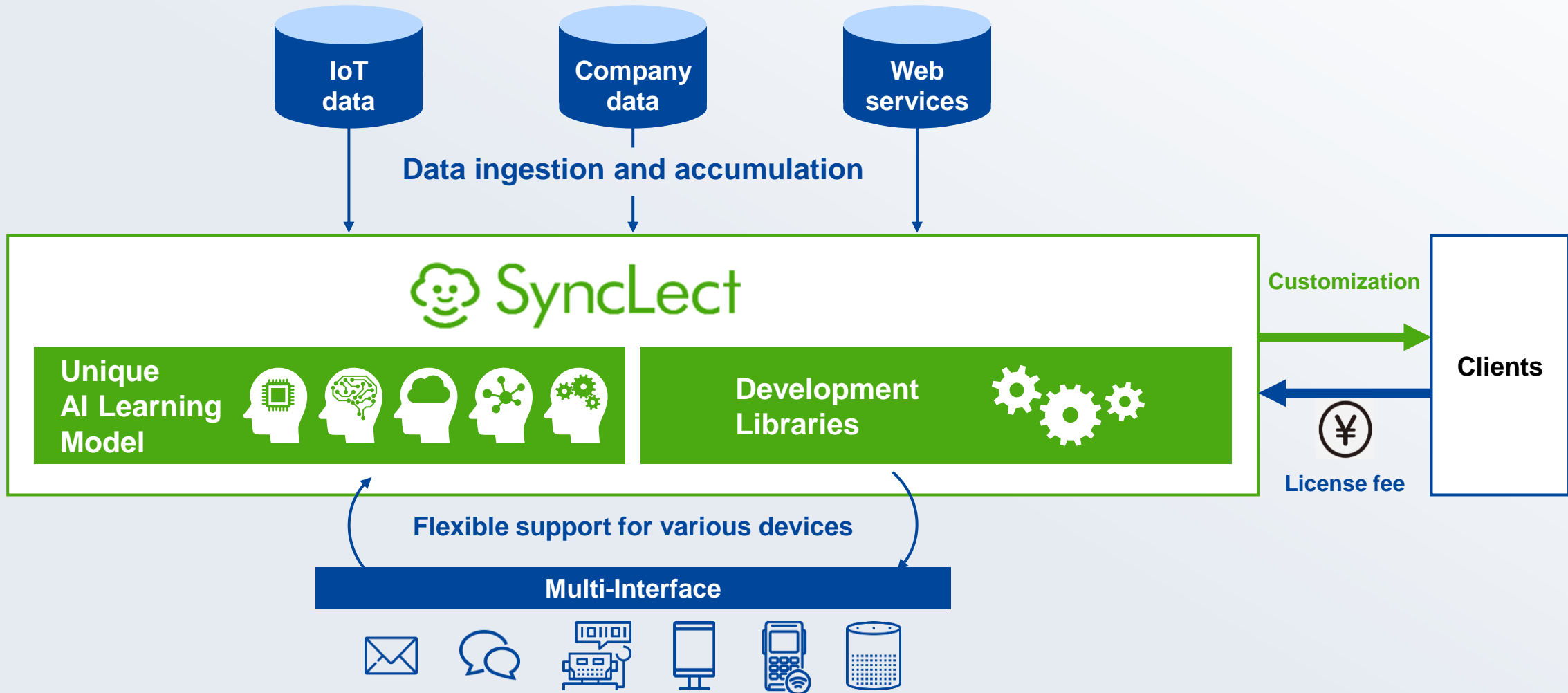




The Roles of Group Companies



"AI + IoT + Big Data Development & Operation Platform" that enables parts to be reused.





Public Sector/Government

- Base for Shibuya City data linkage platform
- Osaka Smart Senior Life project
- Kumamoto Prefecture (Sojo University × AITRIOS)
- Regional disaster prediction solution
- Workshop for Tokyo Metropolitan University students

Retail

- Support for using AITRIOS
- Support for using visual detection solutions
- In-store purchase behavior analysis
- Facial recognition payment platform
- Smart speaker payment
- Detection of in-store unusual behavior

Communications/Railway

- Next-generation IoT communication technologies
- Generative AI dialog concierge
- XR platform
- Copilot for Ekiin generative AI assistant



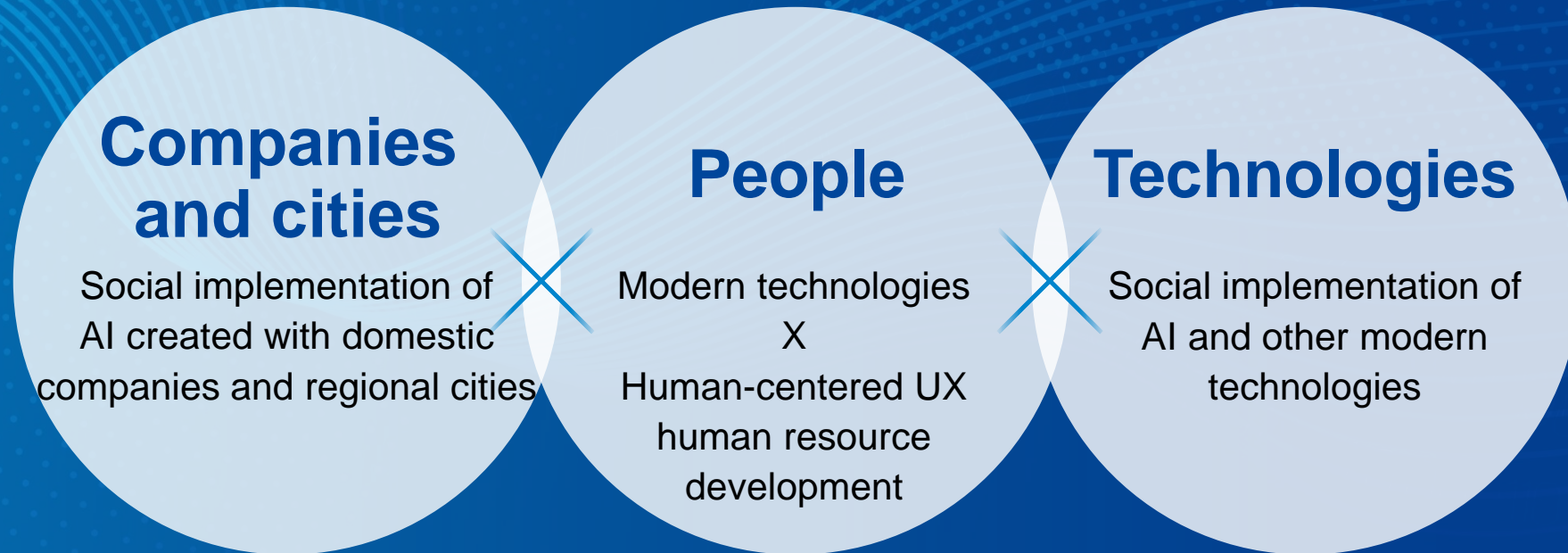
Manufacture

- Establishment of multimodal generative AI platforms
- Assistance for increasing RAG system accuracy
- Production of Microsoft Teams meeting support app
- Smart glasses XR development
- Digital twin
- Support for modernizing operations
- PowerPlatform internalization support service

Finance/Trading

- Support for using generative AI
- Generative AI service operational decision management (ODM)
- Call center AI
- Support for business process reforms and higher efficiency

Social implementation of AI technologies



02 — Highlights of FY2024 1H

- Accomplishments
- Improvements



FY2024 1H Consolidated Financial Results Overview

(Thousand yen)

(Thousand yen)

	FY2023 1H Results		FY2024 1H Results			
		Pct. to net sales (%)		Pct. to net sales (%)	YoY change (%)	Vs. annual plan (%)
Net sales	1,158,212	100.0	1,332,685	100.0	115.1	45.5
AI	419,738	36.2	670,006	50.3	159.6	44.8
DX	629,320	54.3	599,594	45.0	95.3	45.4
Product	109,154	9.5	63,085	4.7	57.8	55.5
Operating profit	46,724	4.0	151,124	11.3	323.4	66.9
Ordinary profit	47,857	4.1	150,475	11.3	314.4	65.7
Profit attributable to owners of parent	30,166	2.6	100,976	7.6	334.7	64.4
Net income per share	16.11 yen		53.44 yen			

* The OPS Services category was discontinued from FY2024 and the number of service categories were changed from four to three. In line with this change, FY2023 service category sales were reclassified into the three service categories to enable year-on-year comparisons to be made under the same conditions.



Net Sales

1,332 million yen

- YoY change: **+15.1%**
- Vs. annual plan: 45.5%

All-time High

FY2024 Key Performance Indicators: **Sales, Operating Profit, Recruiting**

Accomplishments

- **Sales increased 12.6% YoY for the Quarter and 15.1% YoY.**
- Developing new businesses with existing clients aiming to increase the LTV of loyal clients → growing as a stable revenue base
- The number of clients from which sales of more than 100 million yen per year can be expected doubled from the previous fiscal year.

Improvements

- Although negative effects of the shift of the client base to enterprise-level and seasonal changes in sales were anticipated, more time than expected was needed for targeting clients and optimizing the use of internal resources. As a result, sales growth could have been even higher.
- Unable to establish a highly profitable business model incorporating generative AI because of the speed of technological advances in this field

▶ Financial Summary



Operating Profit

151 million yen

- YoY change: +223.4%
- Vs. annual plan: 66.9%

Ordinary Profit

150 million yen

- YoY change: +214.4%
- Vs. annual plan: 65.7%

Accomplishments

- Improving profit structure by reducing the number of unprofitable projects, raising unit sales price, reducing recruitment expenses, etc.
- The gross profit margin and size of each project grew as a result of increasing the number of loyal clients, strengthening relationships with existing clients and adopting new technologies such as generative AI.
- SG&A expenses were successfully reduced as planned by decreasing recruitment expenses.

Recruiting

Accomplishments

- There was a **net increase of 35 employees** in line with the initial plan (net increase of nine employees in 1Q of FY2024 + net increase of 26 employees in 2Q of FY2024).
 - The recruitment target for FY2024 is a net increase of 60 employees (progress ratio: 58%).
 - The plan targeting the reduction of the turnover rate to 10% (16 employees/year) or below is steadily in progress.

Others

- The OPS Services category has been discontinued from FY2024.
 - This is due to a decrease in the number of contracts for the operation and maintenance phase only, and an increase in time-and-materials contracts mainly for agile development.
 - Projects that were recorded in the OPS Services category have been allocated to the DX (approx. 80%), AI (approx. 15%), and Product (approx. 5%) service categories.

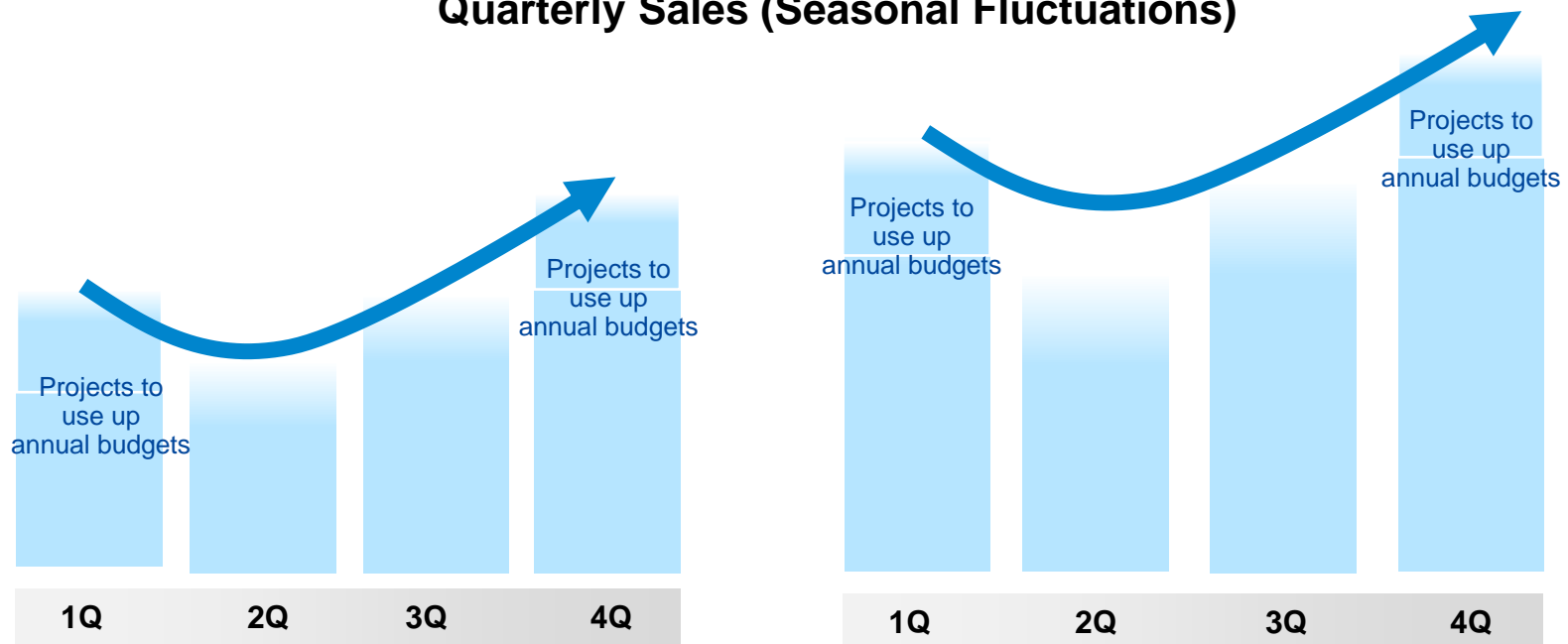


▶ Seasonal Fluctuations in Net Sales

Headwaters' sales are budgeted in a quarterly budget plan that incorporates the following seasonal fluctuations.

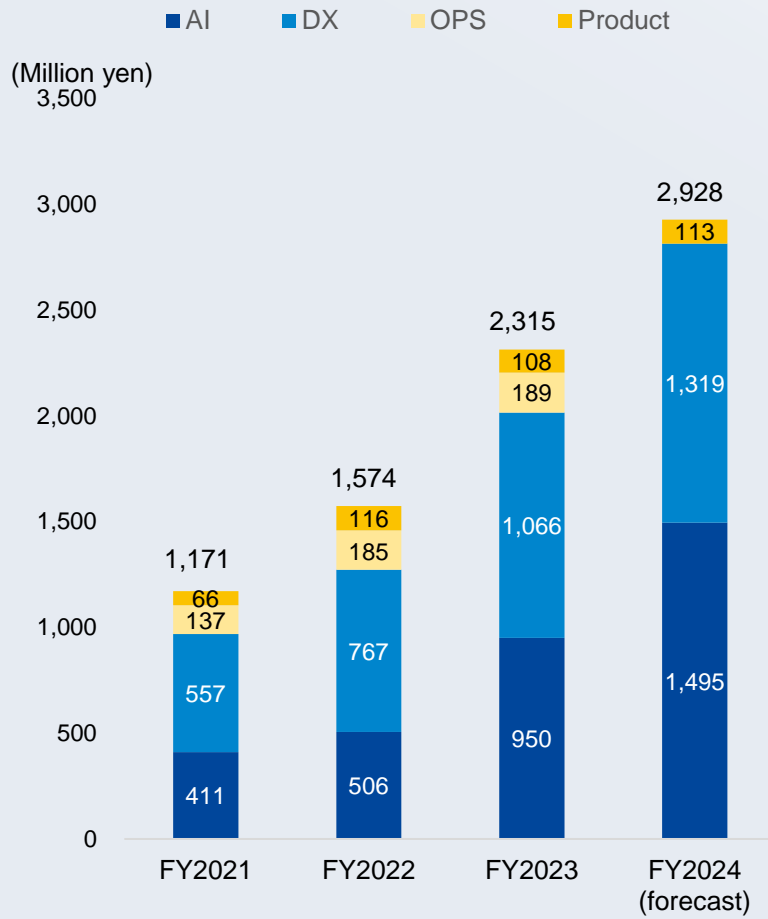
	Net sales trend	SG&A expenses trend	Characteristics
1Q	Medium	Low	Sales are steady due to projects to use up annual budgets. Recruitment is slow, and SG&A expenses tend to be kept low.
2Q	Low	High	Sales are at their lowest point. SG&A expenses increase due to progress in recruitment and profit reaches its lowest point.
3Q	High	Very high	Sales are strong if recruitment is steady. It is expected that recruitment continues from 2Q and SG&A expenses rise steeply.
4Q	Very high	High	While sales are at their highest point and recruitment decreases, SG&A expenses remain high due to a steep increase in personnel expenses.

Quarterly Sales (Seasonal Fluctuations)

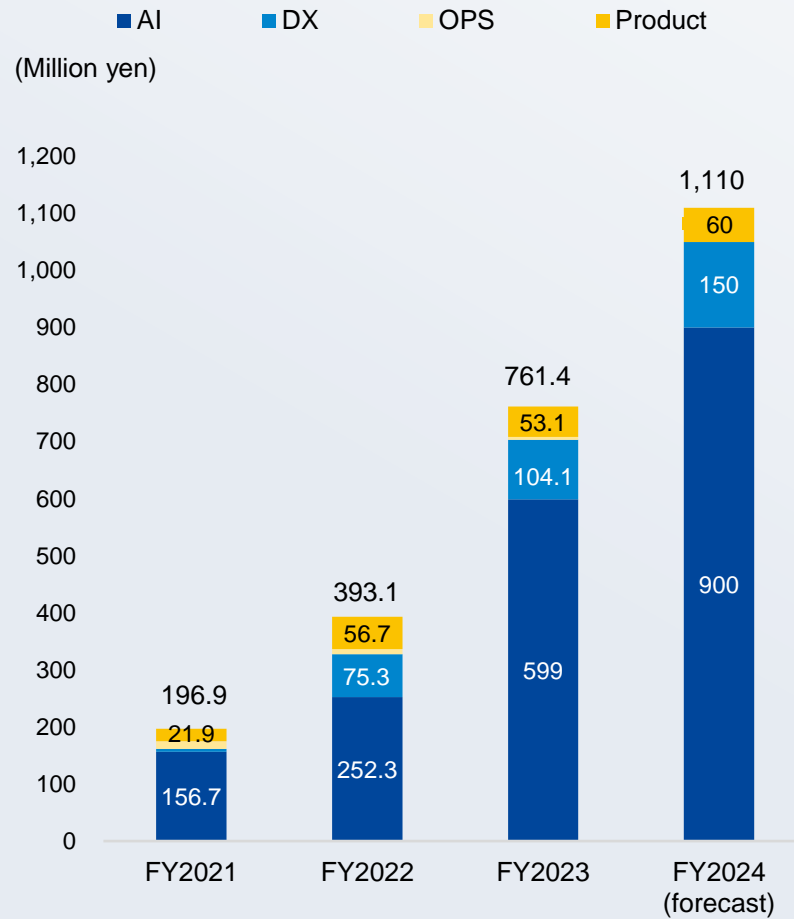




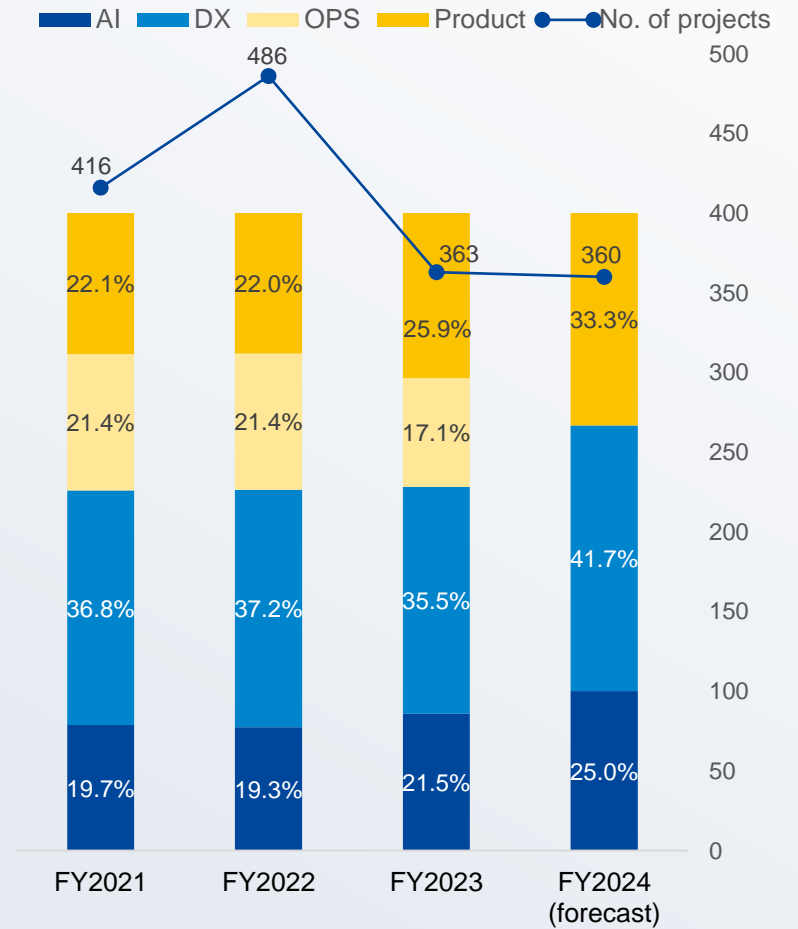
Net Sales by Service Category



Alliance Strategy-Related Sales



No. of Projects and the Ratio of Projects by Service Category

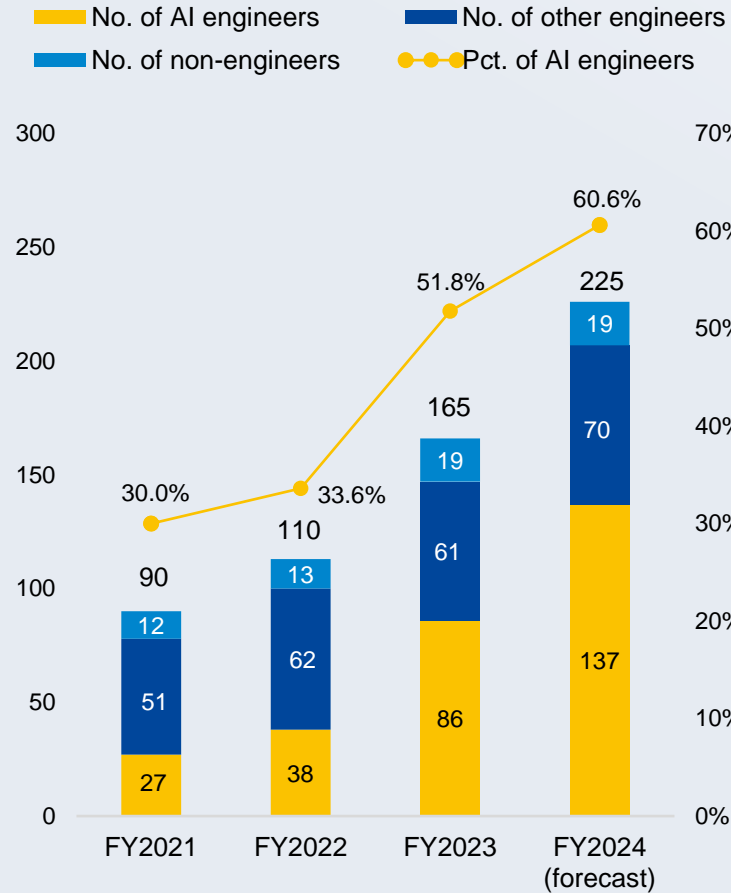


*The OPS services category was terminated from FY2024.

*FY2022 is non-consolidated figures and the following years are consolidated figures.

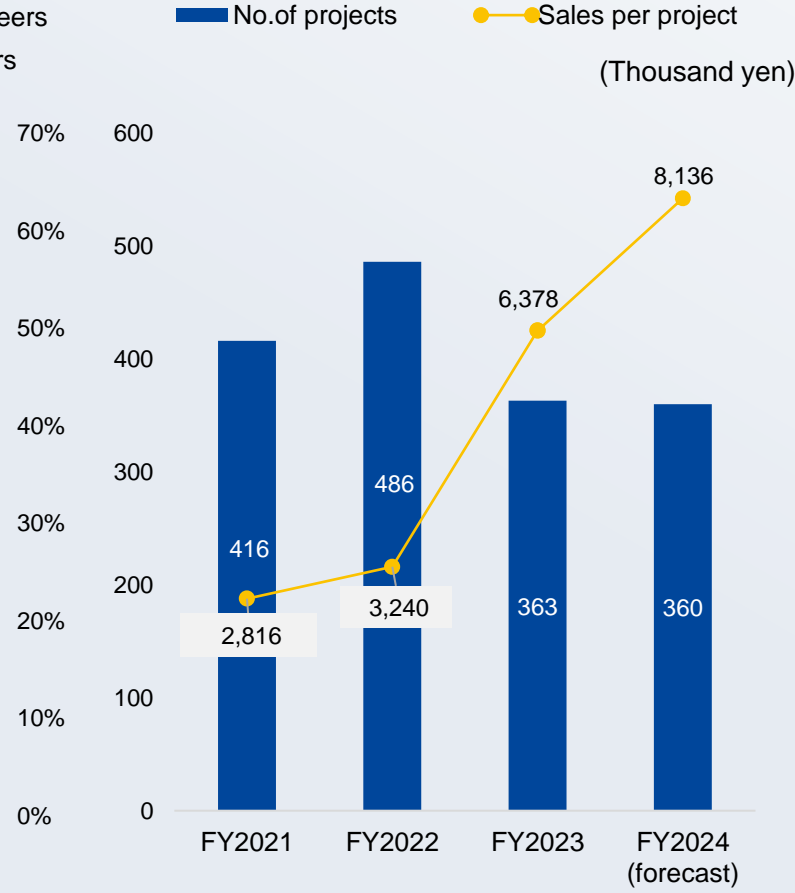


No. of Employees and AI Engineers



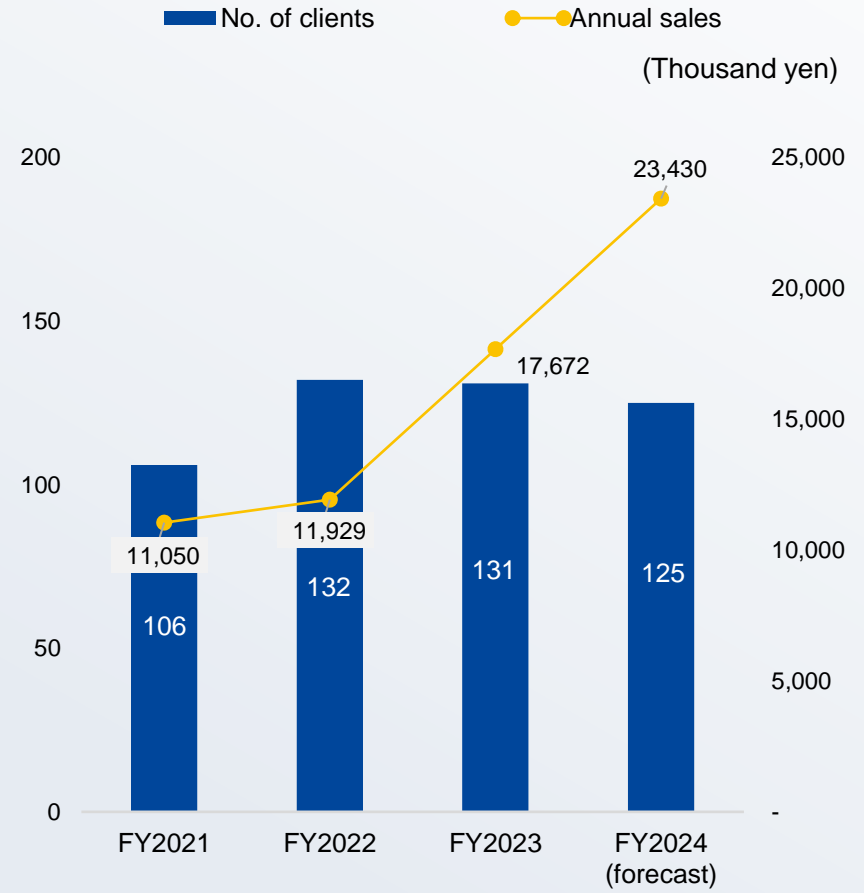
*excluding contract and part-time employees

Sales per Project



*FY2022 is non-consolidated figures and the following years are consolidated figures.

Annual Sales per Client



▶ The Progress of the Growth Strategy

Short term

— Meet Demand for Generative AI

Sales and training activities under way concerning needs involving generative AI (provision of products, lab services, workshops and other activities)

— Utilize External Resources

Sales is increasing rapidly through **alliance strategy**. Strengthened collaborations with major companies, such as Microsoft

Reference: KPI
Net Sales by Service Category
No. of Projects and the Ratio of Projects by Service Category

Reference: KPI
Alliance Strategy-Related Sales
Annual Sales per Client

Medium to long term

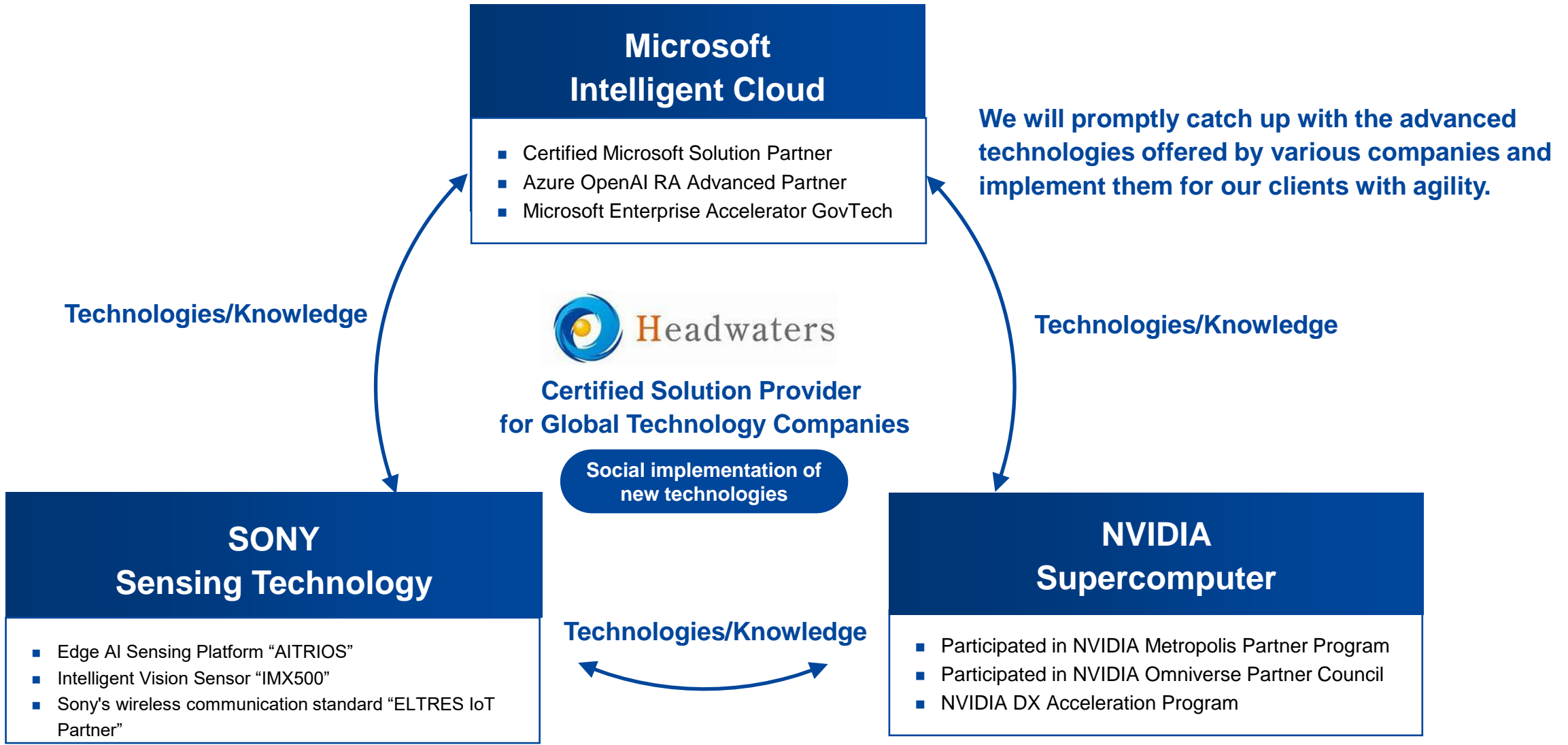
— Increase Recurring Revenue

Improving the sales strategy and contract formats to establish a base for consistent revenue

— New Sources of Revenue

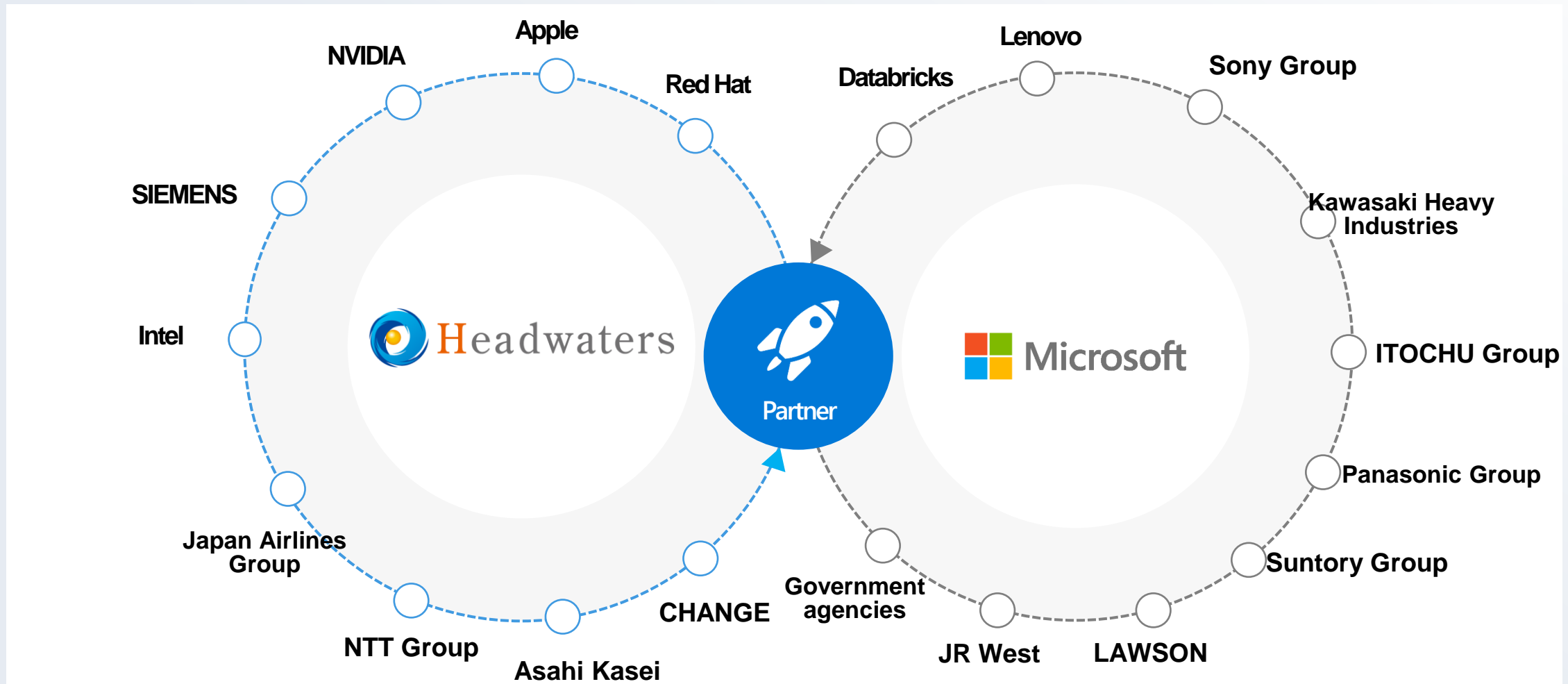
Use R&D for new technologies and develop innovative services to support the licensing business model.

Reference: KPI
Net Sales by Service Category



▶ Alliance Strategy: Microsoft × Partner To Partner

Accelerating business by leveraging Microsoft's customer base and technology along with our own customer base and technical expertise and building an ecosystem through "Joint Sales x Joint Marketing x Joint Solutions."





Our Trusted Clients & Alliance Partners

Upgraded alliances and used web-based pull marketing for business with leading firms in many industries and fields

Manufacturing

- Sony Group Corporation *
- Asahi Kasei Corp.
- Kubota Corporation
- Mitsubishi Chemical Corporation *
- FUJIFILM Holdings Corporation
- Dai Nippon Printing Co., Ltd. *
- Panasonic Connect Co., Ltd. *
- NIKON CORPORATION *
- NICHICON CORPORATION *

Trading/Transportation

- ITOCHU Corporation
- Japan Airlines Co., Ltd.
- West Japan Railway Company *

Robot

- Kawasaki Heavy Industries, Ltd.
- Remote Robotics Inc.

Real Estate/Construction

- TAISEI CORPORATION
- SHIMIZU CORPORATION
- Mitsui Fudosan Co., Ltd.

Food/Beverage

- Suntory Spirits Ltd.
- Sapporo Holdings Limited
- ITO EN, LTD.

Media/Education/Entertainment

- NHK Publishing, Inc. *
- NHK Enterprises, Inc. *
- Dai Nippon Printing Co., Ltd. *
- Sony Music Entertainment (Japan) Inc. *
- Animax Broadcast Japan Inc. *

Communication

- Apple Inc.
- NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION
- NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION *
- NTT DATA Japan Corporation
- Cisco Systems G.K. *
- Fujitsu Limited *
- Marubeni Network Solutions Inc. *
- TelWel East Japan Corporation. *

Finance/Insurance

- Nippon Record Keeping Network Co., Ltd.
- Meiji Yasuda Life Insurance Company
- Daiwa Securities Co. Ltd. *
- Seven Bank, Ltd.

Retail/Distribution

- Lawson, Inc.
- Pan Pacific International Holdings Corporation
- BICCAMERA INC.
- SEVEN-ELEVEN JAPAN CO.,LTD.
- NITORI Co., Ltd.
- Village Vanguard Co., LTD.

Government/Public Sector

- Ministry of Economy, Trade and Industry
- Osaka Smart Senior Life Demonstration project promotion council
- Shibuya City Office
- Kobe University
- Sojo University
- National Agriculture and Food Research Organization

(In no particular order; an asterisk denotes a new client acquired within the past year.)

03 — Challenges and Strategies

Increase in Sales	<ul style="list-style-type: none">■ Activities for adding loyal clients and strengthening relationships with existing clients<ul style="list-style-type: none">▶ Focus resources on growing markets (generative AI) and developing new businesses▶ Continue to increase joint activities with alliance partners
Improvement of Profit Margin	<ul style="list-style-type: none">■ Earn higher fees by using business engineers with knowledge of advanced technologies for collaborative development projects with clients■ Higher unit sales price, control of the percentage of sales involving partner companies, and the use of generative AI to increase operational efficiency
Stabilization of Revenue	<ul style="list-style-type: none">■ Build stronger relationships with existing clients to increase client retention for greater client life time value■ Increase recurring businesses involving “labo” contracts and collaborative development projects with Headwaters staff working at customers’ business sites<ul style="list-style-type: none">▶ Use one-time AI and DX projects for the steady growth of product service sales
Securing Human Resources	<ul style="list-style-type: none">■ Retain talented people by using health management to place priority on staying healthy and providing a pleasant workplace environment<ul style="list-style-type: none">▶ Strengthening internal programs for the purposes of upgrading training and increasing employee engagement▶ Continue to hire large numbers of new graduates and people with prior work experience
Enhancement of Employee Benefits	<ul style="list-style-type: none">■ Reexamine salaries to match job positions and skills and take steps for more flexibility regarding working styles■ Enhance benefits such as the restricted stock compensation plan, support for caring for a child or aging parent, and other programs

Proprietary Generative AI Solution Service

SyncLect Generative AI and Other Solutions

About SyncLect Generative AI

- Convenient feature set for further leveraging Generative AI
- Able to solve problems at companies and is easy to start using quickly and at a low cost
- Azure OpenAI Service GPT-4 and ChatGPT API accessible to non-technical users



Our solutions

- Prompt Engineering Lab Service
- SyncLect GenerativeAI Service
- Azure OpenAI Service PowerApps bot
- Copilot Internalization Support Service
- Azure OpenAI Service × Voice DX
- Azure OpenAI Service Advisory
- Azure OpenAI Service Secure Azure Infrastructure Construction
- Azure OpenAI Service Hands-on Workshop
- Azure OpenAI Service × Power Platform

Recognized by Microsoft Japan as the leading partner in the AI category

Received the AI Innovation Partner of the Year Award, part of the Microsoft Japan partner of the year 2024 award program



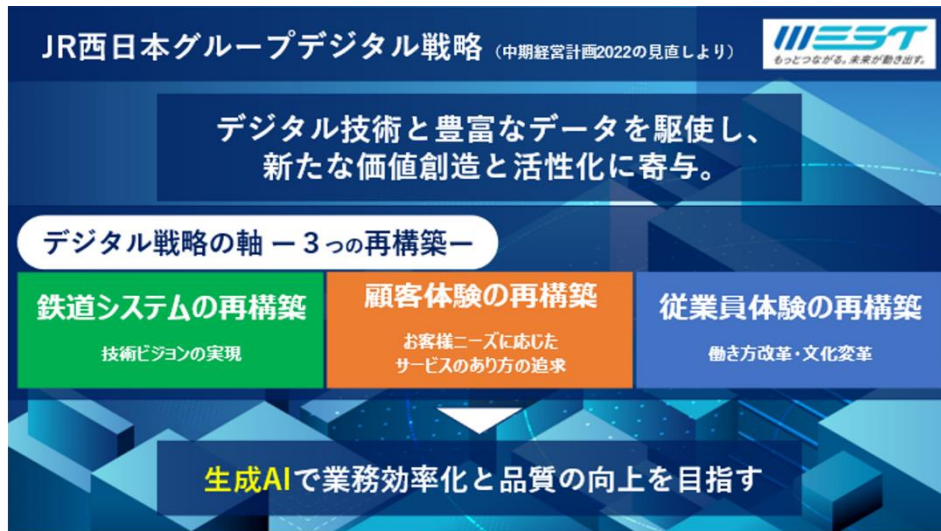
Seven Headwaters engineers received a 2024 Microsoft Top Partner Engineer Award.



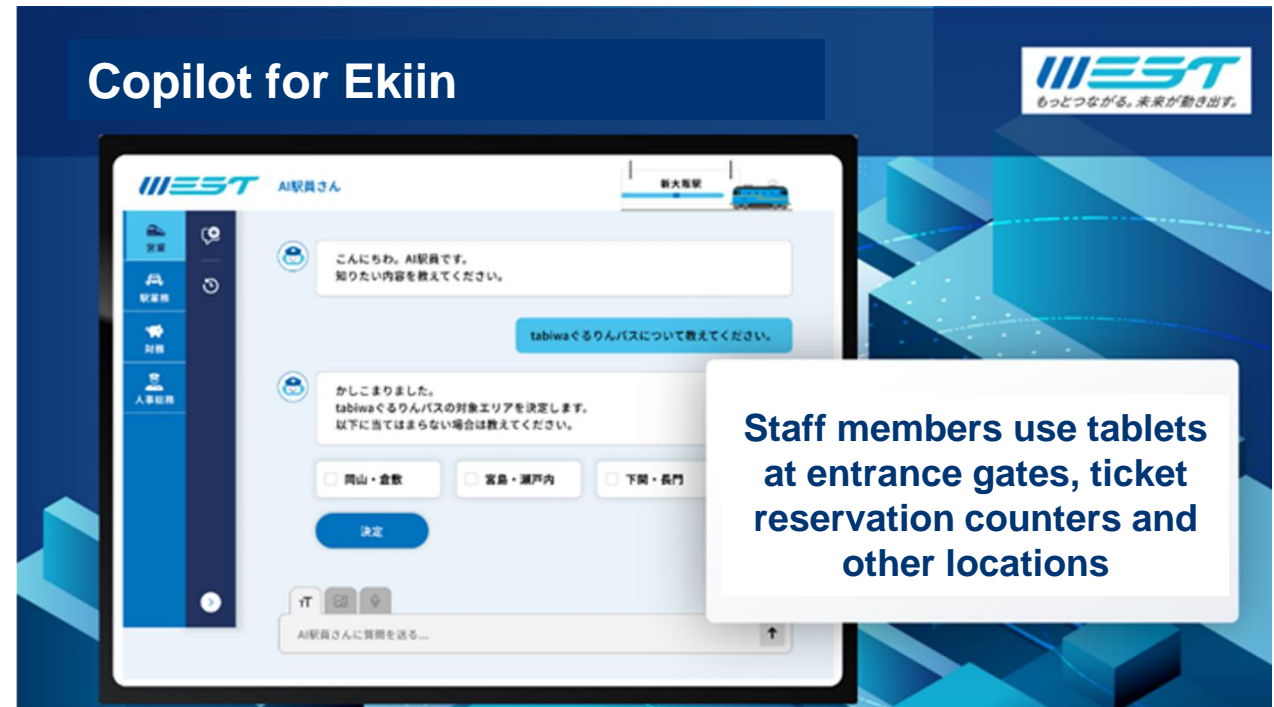
Support for developing the Copilot for Ekiin generative AI assistant



JR West and Headwaters started developing an app in March 2024 for starting a demonstration trial of Copilot for Ekiin. Headwaters used large language models (LLM) and expertise involving retrieval-augmented generation (RAG) systems for support involving a development project linking the Azure OpenAI Service and Microsoft Fabric on the SyncLect Generative AI platform. The plan is to gradually increase the number of railway stations using this generative AI assistant and enlarge the coverage of data analysis. The objectives are to enable the staff of stations to work more efficiently and to provide even higher quality services.



▲ The JR West Group's digital strategy (Source: JR West session materials of Microsoft AI Day)



▲ An example of a Copilot for Ekiin display on a tablet

Generative AI (Example-2): ITOCHU Corporation

Support for creation of businesses using generative AI (external sales model for generative AI services)



Headwaters is assisting ITOCHU with the creation of businesses using generative AI, which is a project of ITOCHU's Virtual Office, a platform for collaboration across an entire organization. Our support includes the use of ideathons and minimum viable product (MVP) for higher operational efficiency at ITOCHU as well as support for an external sales business that uses generative AI.

The Virtual Office

The Virtual Office is a collaborative platform spanning an entire organization for the purposes of conducting projects involving all parts of an organization and speeding up the creation of new businesses.



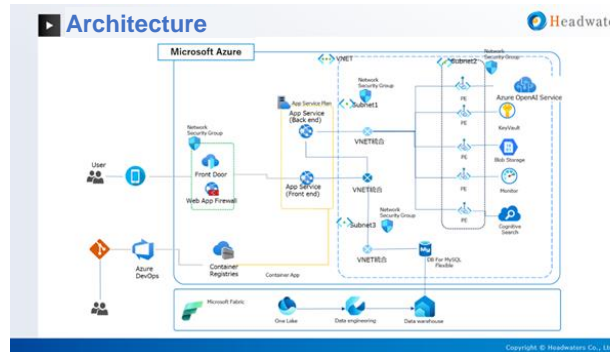
Employees with a strong interest and motivation involving a project work together



Formation of virtual organizational units with people from many departments

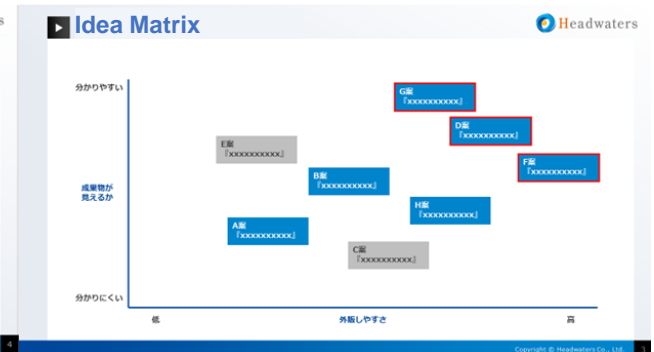
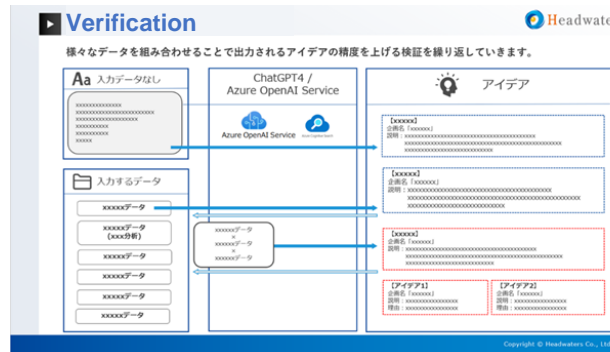


Use of a team's collective knowledge for efficiency to complete projects faster



Project Campus

1. 目的・目標		10. 課題的・実務的な効果	
5. データ		6. 計算方法・インフラ	4. 成果の指標
9. オープン戦略		11. データの価値	7. 最終システム
6. 過去の経緯・アドバイザー		12. モデル更新・メンテナンス	



A Virtual Office presentation at the Microsoft Ignite Japan event on December 13, 2023

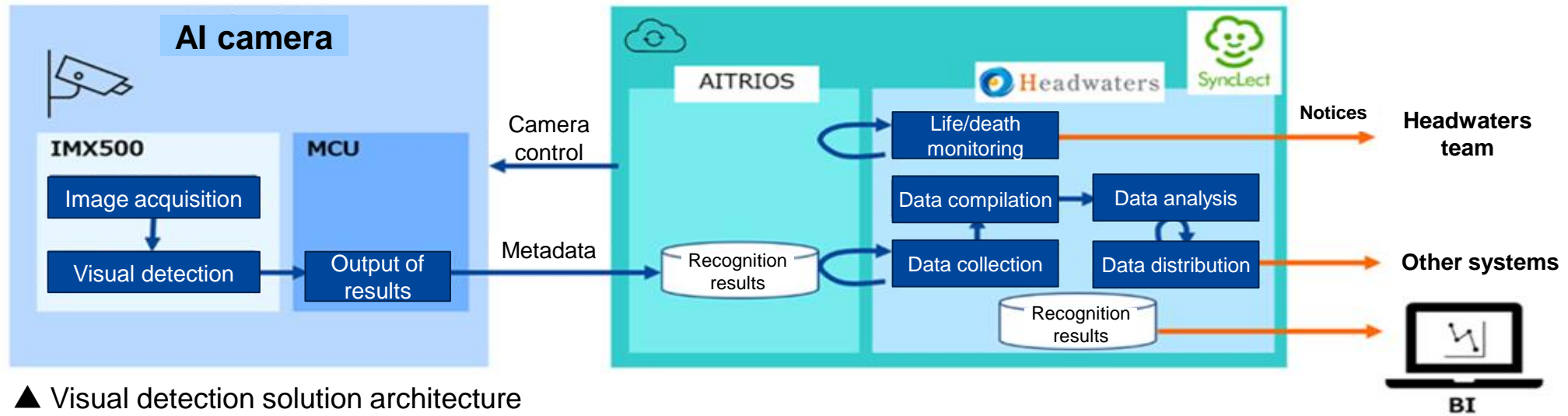


Launch of service for starting to use the visual detection solution using AITRIOS™



Headwaters has launched a service that assists clients with starting to use a visual detection solution that incorporates AITRIOS™, an edge AI sensing platform provided by Sony Semiconductor Solutions Corp., and the IMX500 intelligent vision sensor. Headwaters has already used this service to assist with the use of this visual detection solution at about 500 convenience stores in Japan.

▲ Edge AI technology is used for automatically detecting the number of people viewing digital signage and the length of viewing time.

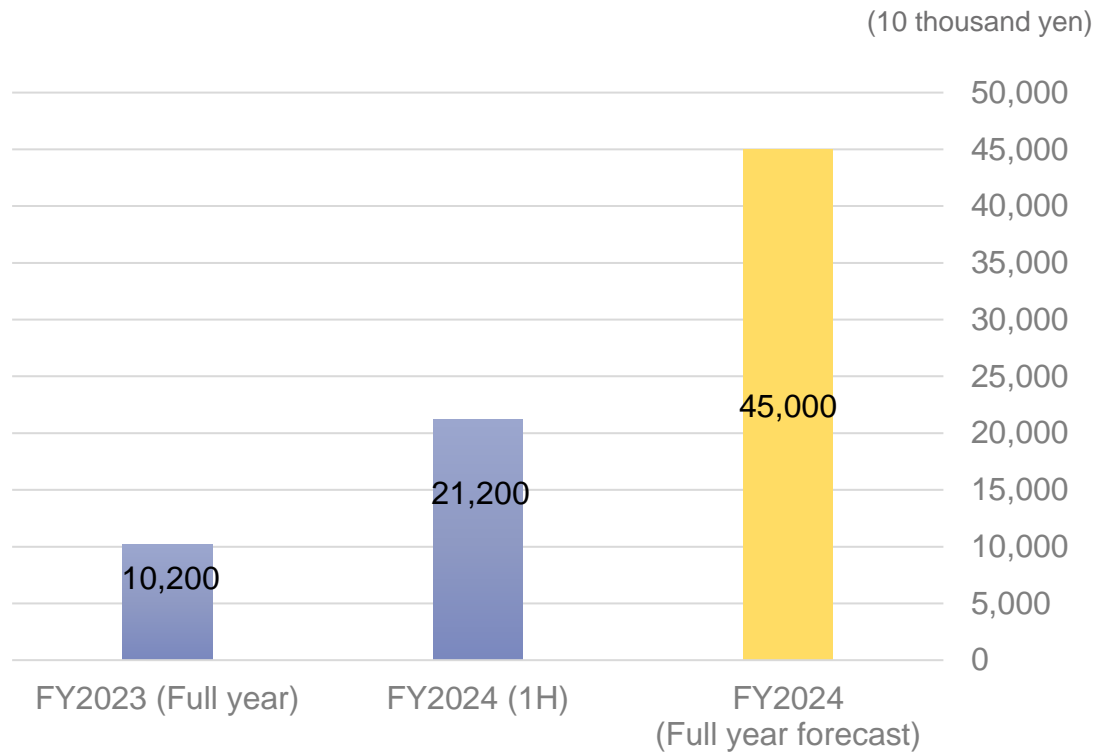


▲ Visual detection solution architecture

▶ Generative AI (Performance and Outlook)

Headwaters sales in the generative AI category are climbing steadily as the entire generative AI market grows. In 2024, Headwaters forecasts generative AI category sales of about 450 million yen, which is about 30% of the forecast for total AI sales of approximately 1,500 million yen.

Generative AI Sales



Outlook for the Generative AI Market

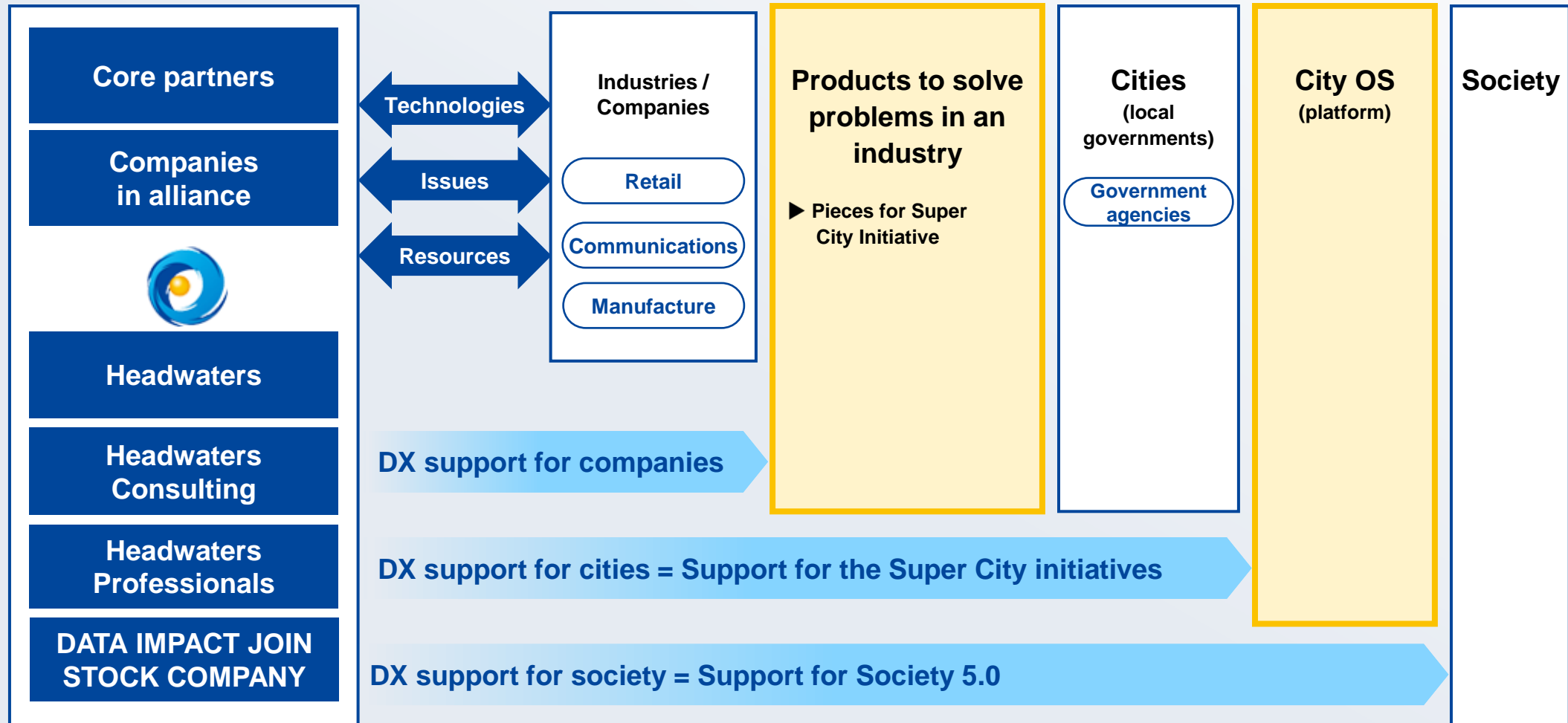
- Integration with services with clients
 - Integration with mobile and smart devices
 - Easier to use due to user interface upgrades
- Multimodal content generation
 - Able to produce content combining image, voice, video and other elements
- Multi-language models, advancing to code generation domain
- More progress in content generation automation and business process efficiency
- Even higher RAG accuracy
- Progressing to specialized models
 - More generative AI models for specific applications, such as health care, law, finance and other fields
- Better real-time content generation
 - Interactive exchanges due to even faster and smoother responses

Issues

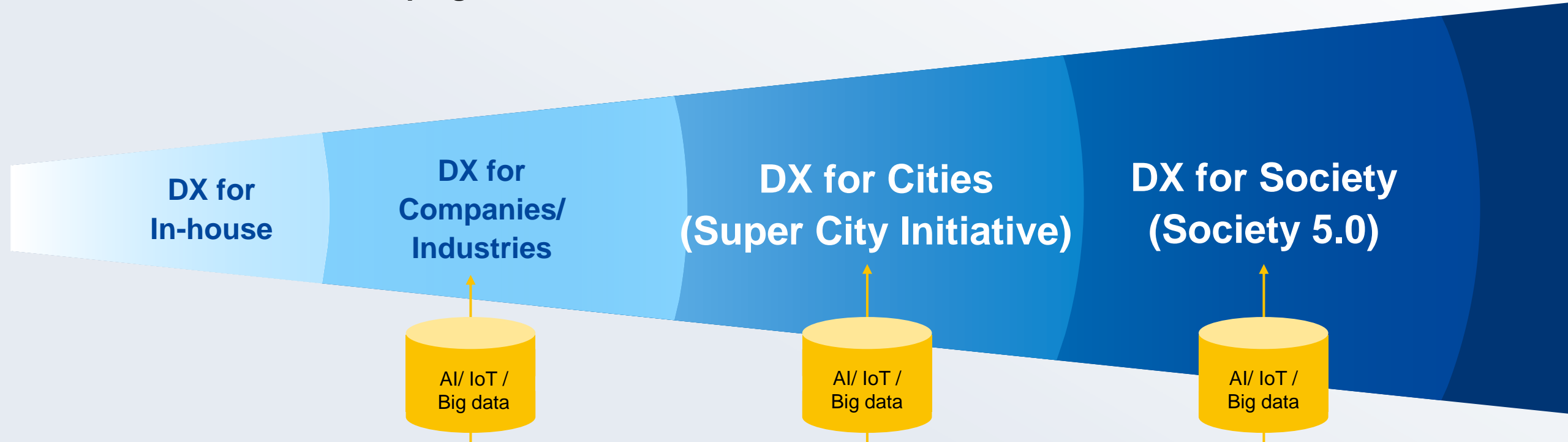
Energy efficiency, cost efficiency, ethical problems, privacy issues, need for a platform for the AI decision making process, intellectual property rights, and other issues

* Forecast figures may change as they are as of the time of disclosure of these materials.

Developing a foundation to enable close communication with industries and companies for Society 5.0



Scenario for developing a successful model for our AI and DX-related businesses



Our capability to achieve DX as social deployment of advanced technologies in each phase

Consultation/UX



Modern technology centered on AI

— Appendix

▶ FY2024 Main Topics (1)

- Launched “Multimodal AI Lab Service” that provides AI support for complex generation of texts, voices, images and videos for companies using the Azure OpenAI Service (February 15)



- Headwaters has started providing to companies using the Azure OpenAI Service of Microsoft Japan a Multimodal AI Labo Service for assistance concerning composite generative AI consisting of text, voice, image and video content.
- As generative AI technology advanced, there has been an increase in the use of customized generative AI capable of using the many types of data formats at companies. The importance of multimodal AI x RAG is increasing as a tool for accomplishing this customization.
- Headwaters believes that multimodal AI can be used with a broad range of platforms. Plans include using this AI as a solution that can be used with XR smart glasses, future UX apps and edge AI.

- Certified as Databricks SI consulting partner – Provision of a support service for the utilization of data & AI incorporating Azure Databricks (February 16)



- Headwaters has been certified as an SI consulting partner by Databricks Inc., a global data and AI company. As a certified partner, Headwaters provides a service that assists companies use data & AI that utilizes Azure Databricks. Building large data analysis platforms is essential for more progress with the digital transformation and the use of generative AI. As a certified partner, Headwaters is able to receive support from Databricks concerning the purchase and operation of products.
- Headwaters plans to use this certification for marketing activities with Databricks and the joint development of solutions using data & AI. The goal is creating a more powerful data platform business that can increase the use of generative AI and edge AI. As a certified partner, Headwaters also plans to perform verifications of Azure Databricks Dolly using Azure AI Studio and to build data platforms with Azure Databricks and Microsoft Fabric linkage.

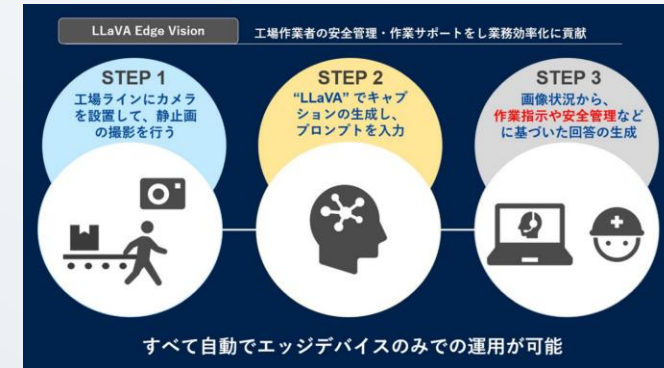
▶ FY2024 Main Topics (2)

- **Advanced RAG service launched using Microsoft Fabric as a data platform for companies who have not been successful using RAG in generative AI operations (May 16)**



- Companies that use generative AI in their businesses often have difficulty utilizing RAG. To assist these companies, Headwaters has started offering an Advanced RAG service that uses Microsoft Fabric as a data platform. This service raises the accuracy of RAG involving the internal use of documents and metadata by companies.
- Generative AI is used to produce summaries in advance and then Summary Embedding is performed for searches of summary data. One benefit is higher accuracy without inputting any superfluous data. Other benefits are a faster response and lower cloud expenses.

- **Industrial edge and generative AI solution LLaVA Edge Vision developed using Siemens and NVIDIA's advanced technologies (May 21)**



- Headwaters has developed an industrial edge generative AI solution called LLaVA Edge Vision. This product uses the SIMATIC IPC BX-35A Box PC of Siemens AG and the NVIDIA® Jetson Orin NX 16GB edge AI device of NVIDIA.
- LLaVA Edge Vision is an edge generative AI solution for factories in the semiconductor, automobile and other industries. Generative AI produces captions for production line camera images. These captions are used to submit instructions and warnings of danger via tablets and smartphones to production line personnel. Providing this information raises the efficiency and safety of production line tasks. Furthermore, the local VLM LLaVA can be used on edge AI to increase the speed and accuracy of generation.



List of Topics (1)

No.	Title	Category
1	Notice regarding changes of Executive Officers	Personnel
2	Assistance for the development of the Cognavi Graduate smartphone app of Forum Engineering	DX
3	Headwaters selected for outsourced processes of the Shibuya City data linkage platform – Working with Microsoft Japan to help build an Urban Data Sharing Platform for Shibuya-ku	Smart City
4	Support for the Conference DX Project of Asahi Kasei involving use of architecture incorporating Azure PaaS and Microsoft Teams UX development	Generative AI
5	Release of video about Microsoft Ignite Japan session “Use of Generative AI by ITOCHU and Expectations for Azure AI Studio and Fabric”	Generative AI
6	Notice of financial results briefing for individual investors	IR Information Meeting
7	Launched “Multimodal AI Lab Service” that provides AI support for complex generation of texts, voices, images and videos for companies using the Azure OpenAI Service	Generative AI
8	Certified as a Databricks SI consulting partner – Provision of a support service for the utilization of data & AI incorporating Azure Databricks	Partnerships
9	Collaboration with Human Resocia for generative AI use assistance – Joint sales of the SyncLect Generative AI Bot for Power Apps to companies using Microsoft 365	Generative AI
10	Article about generative AI activities in the healthcare industry in the Microsoft Cloud Partner Program Japan Official Blog	Generative AI
11	Launched “Multimodal AI Mobile App Copilot” service to support the development of unique mobile applications equipped with generative AI	Generative AI



List of Topics (2)

No.	Title	Category
12	Start of verification of small language model (SLM) and vision language model (VLM) used on NVIDIA® Jetson Orin™ Nano for generative AI x edge AI	Generative AI
13	Article on the case study site of FastLabel Inc. about the Headwaters project for using edge AI cameras to predict the degradation of food products	Edge AI
14	Headwaters speaks as user of Microsoft Fabric, a new data platform for the generative AI era, at the Microsoft Discovery Day event of Microsoft Japan	Generative AI
15	Advanced RAG service launched using Microsoft Fabric as a data platform for companies who have not been successful using RAG in generative AI operations	Generative AI
16	Headwaters introduced as partner at Microsoft AI Day concerning the digital strategy using generative AI of JR West for the frequent creation of new value and changes for society	Partnerships
17	Introduced SkillDB, a service for visualizing the skills of DX and AI human resources to accelerate human capital strategies	Human Resources
18	Headwaters and ROBOT PAYMENT INC. hold joint investor relations information meeting	IR Information Meeting
19	Industrial edge and generative AI solution LLaVA Edge Vision developed using Siemens and NVIDIA's advanced technologies: Introduced at Ryoyo Electro's 8th AI EXPO TOKYO Spring exhibition booth	Generative AI
20	Announcement on June 5 webinar: Information about starting generative AI projects and training generative AI personnel, using ITOCHU and JR West as examples, regarding the theme of reforming business using the power of generative AI	Generative AI
21	Provision of development support for JR West's Copilot for Ekiin (station personnel) generative AI assistant	Generative AI



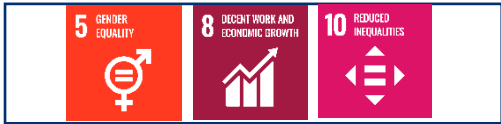






List of Topics (3)

No.	Title	Category
22	Microsoft customer story includes information about Headwaters support for ITOCHU, Microsoft Fabric and Azure AI Studio addition of generative AI platform to FOODATA for upgrading the service for quickly obtaining conclusions from the data analysis dashboard	Generative AI
23	Release of minutes of the joint investor relations information meeting with ROBOT PAYMENT	IR Information Meeting
24	Headwaters, Headwaters Consulting, and Headwaters Professionals announced their Silver Certification for being healthy companies	Sustainability
25	June 21: Notice of information meeting for recruiting people with prior work experience – Information about opportunities at Headwaters	Recruitment Briefing
26	Announcement of More Collaborations with Information Strategy and Technology Co., Ltd.: Jointly providing in-house DX support services using generative AI for enterprise companies operating financial and IT businesses	Generative AI
27	Headwaters Consulting: Provided generative AI practice program for beginners during the New Techniques for Working in the Age of ChatGPT Nikkei Business School seminar	Generative AI

▶ Initiatives for SDGs and Targets

Our goal is to help use AI for social progress and harmony among people, communities and nature.

<p>Energizing regions</p>	<p>Contribute to energizing regions by solving various issues Participation in measures for deepening ties between local governments and companies and for contributing to society</p>	
<p>Create new business value</p>	<p>Use new technologies and AI/DX education programs for creating new forms of value in business operations. Offer new services that contribute to society.</p>	
<p>Diversity/Working style reforms</p>	<p>Support diversity and provide flexibility regarding how people do their jobs Suitable work-life balance including time off for child/elderly parent care</p>	
<p>Fair and ethical business activities</p>	<p>Increase soundness of governance, strict adherence to business ethics Extensive information disclosure and dialogues; compliance with code of conduct; more effective Board of Directors</p>	
<p>Co-creation of value with business partners</p>	<p>Goals are solving social issues and adding more business domains Strategic investments that use alliances and M&A</p>	
<p>Protection of the environment</p>	<p>A commitment to supplying services with a small environmental impact and lowering CO2 emissions</p>	
<p>Education programs</p>	<p>Support for a diverse workforce with training programs that give people skills to accomplish ambitious goals Personnel and training system reforms to enable people to achieve a broad range of career goals Support for earning Headwaters skill certifications</p>	

▶ Initiatives for SDGs

Expressed support for the TCFD recommendations



Participated in the TCFD consortium



Developed the “Tabenate” app for reduction of food loss



Participated in the OSAKA Zero Carbon Foundation



Certified as a company that complies with the Telework Tokyo Rules

Obtained the Silver Certification for being healthy companies



Participation in the Basic Concept of the GX League



Obtained the Kurumin certification

- More use of parental leave
- Improve the short-time work system
- Build a diverse working environment

Certified as a Shinjuku-ku Work-Life Balance Promotion Company





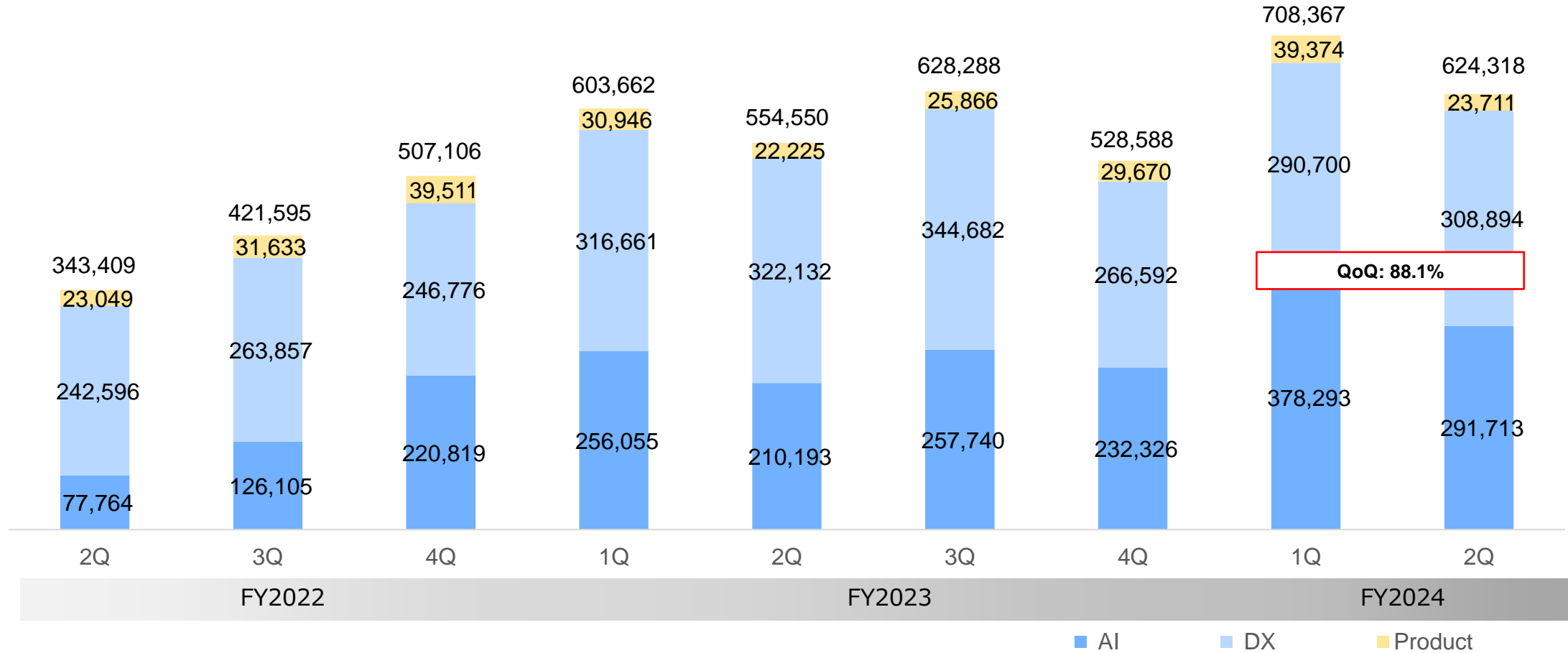
Net Sales by Service Category

FY2022 Sales: 1,574,596

FY2023 Sales: 2,315,088

(Thousand yen)

YoY for the Quarter: 112.6% / YoY: 115.1%



QoQ: 88.1%

* Because the OPS Services category was discontinued from FY2024, FY2022 and FY2023 OPS sales have been allocated to the three other service categories.



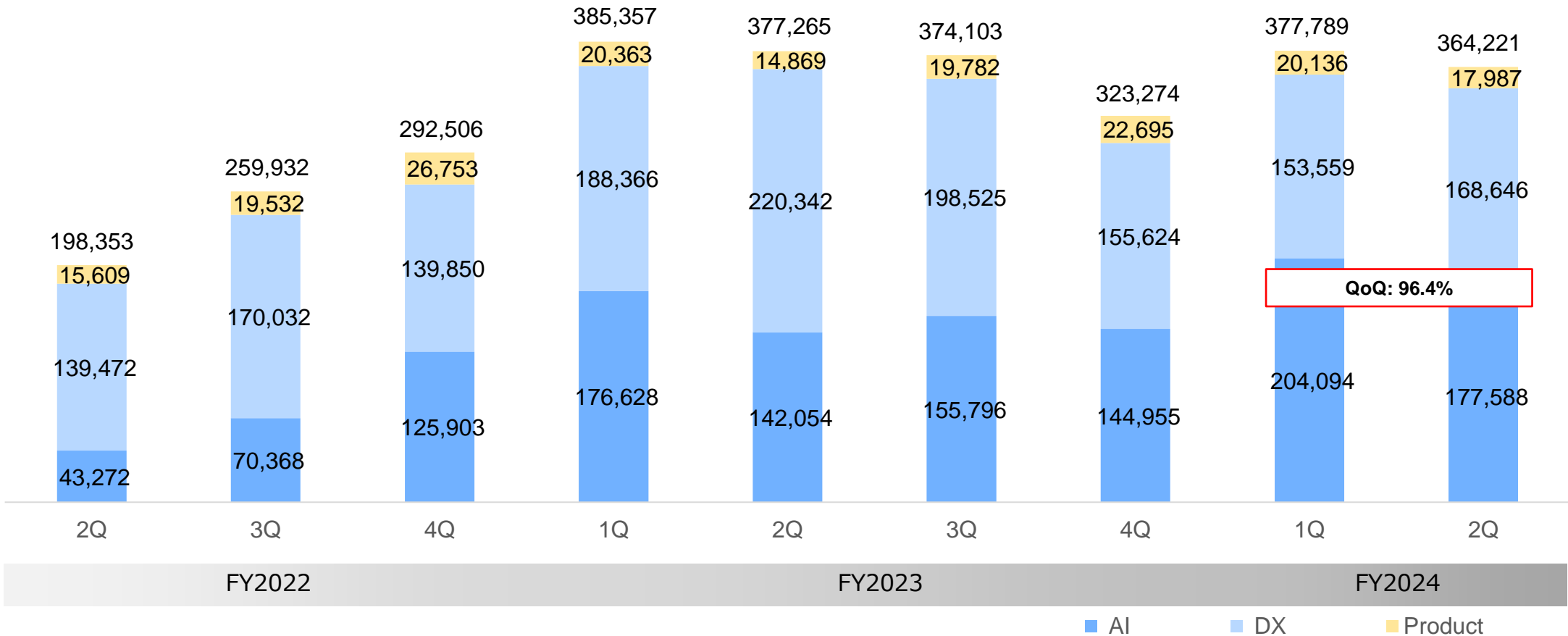
Cost of Sales by Service Category

FY2022 Cost of Sales: 929,060

FY2023 Cost of Sales: 1,459,999

(Thousand yen)

YoY for the Quarter: 96.5% / YoY: 97.3%



QoQ: 96.4%

* Because the OPS Services category was discontinued from FY2024, FY2022 and FY2023 OPS cost of sales have been allocated to the three other service categories.



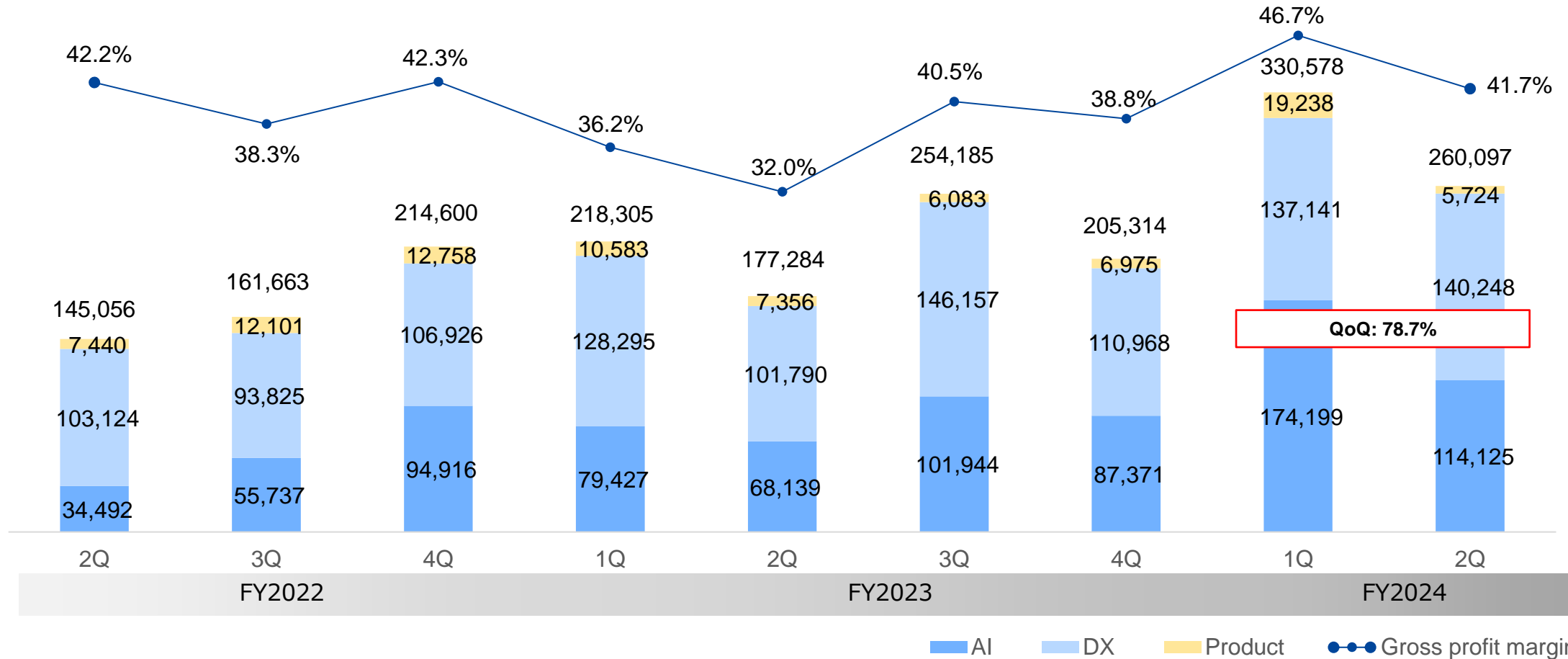
Gross Profit by Service Category

FY2022 Gross Profit: 645,535

FY2023 Gross Profit: 855,088

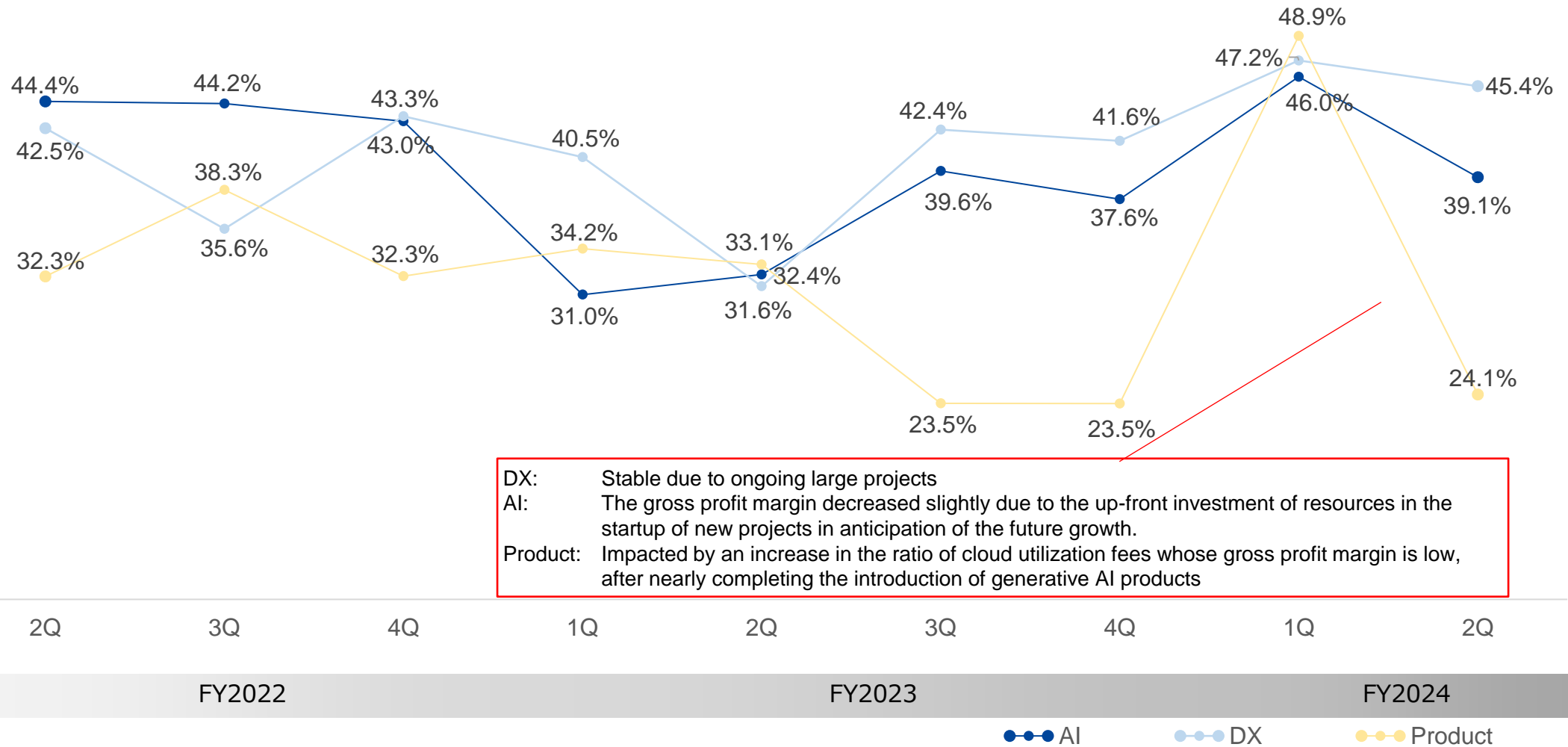
(Thousand yen)

YoY for the Quarter: 146.7% / YoY: 149.3%



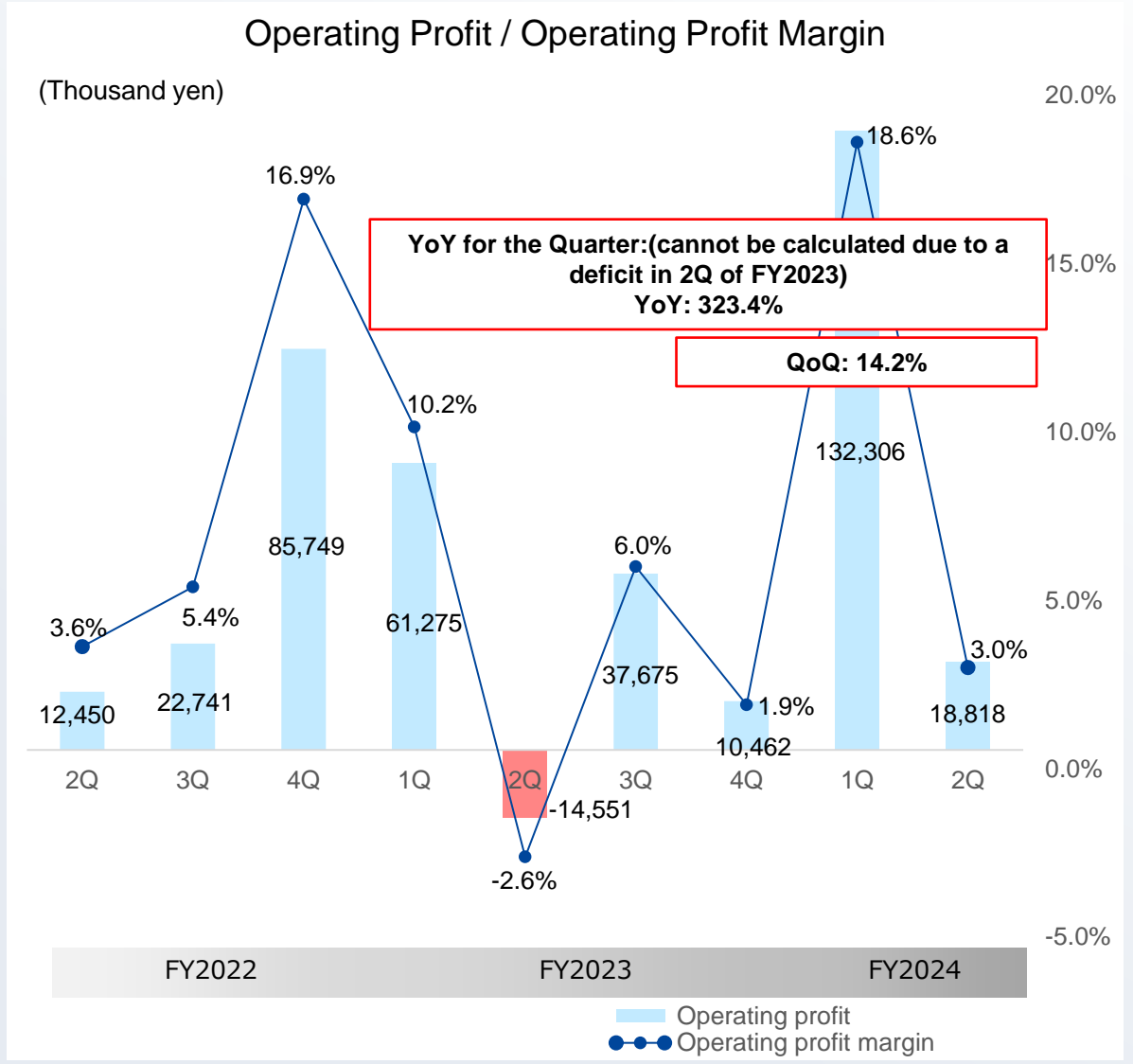
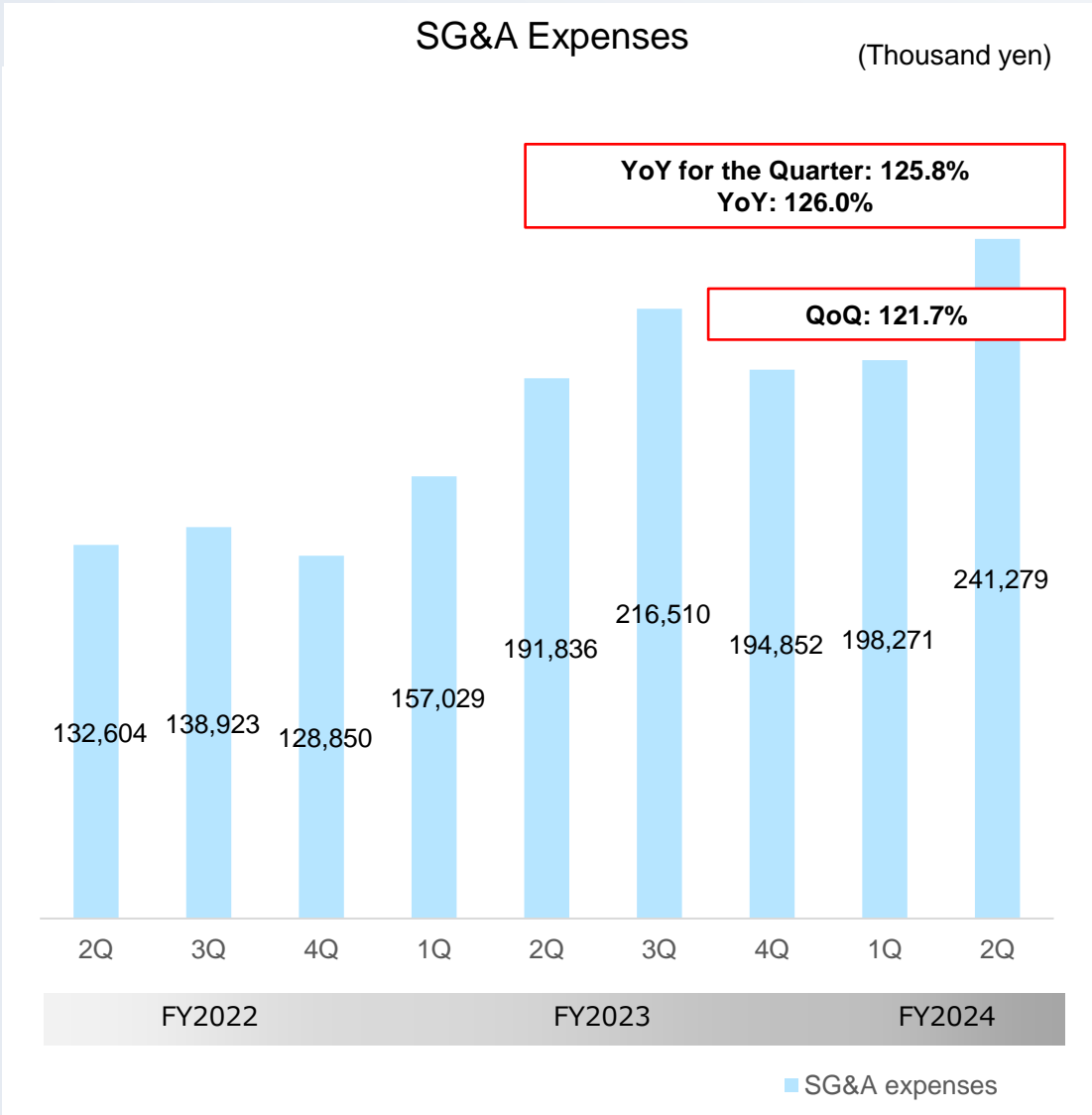
* Because the OPS Services category was discontinued from FY2024, FY2022 and FY2023 gross profit have been allocated to the three other service categories.

Gross Profit Margin by Service Category

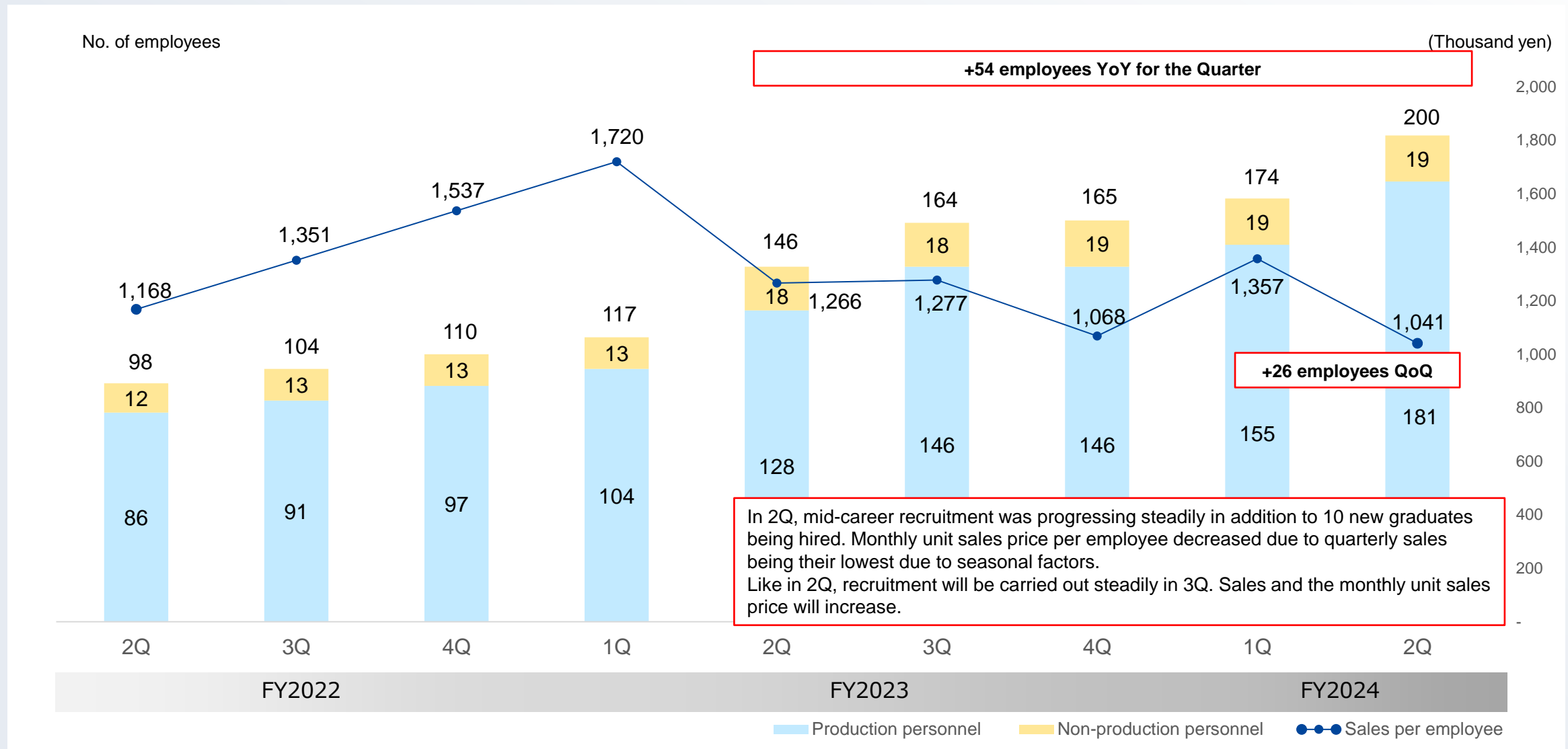


* Because the OPS Services category was discontinued from FY2024, FY2022 and FY2023 gross profit margin have been allocated to the three other service categories.

SG&A Expenses, Operating Profit / Operating Profit Margin



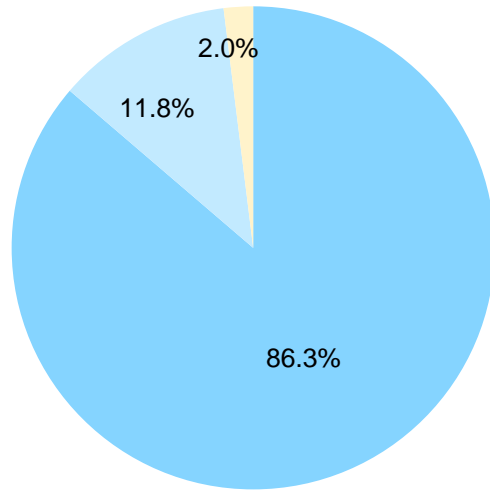
▶ Employees, Monthly Sales Per Employee



* Contract and part-time employees are not included beginning from FY2024 for the consistency with other disclosed materials.

Unit Sales Price, Number of Projects and Contractual Chain Status by Service Category

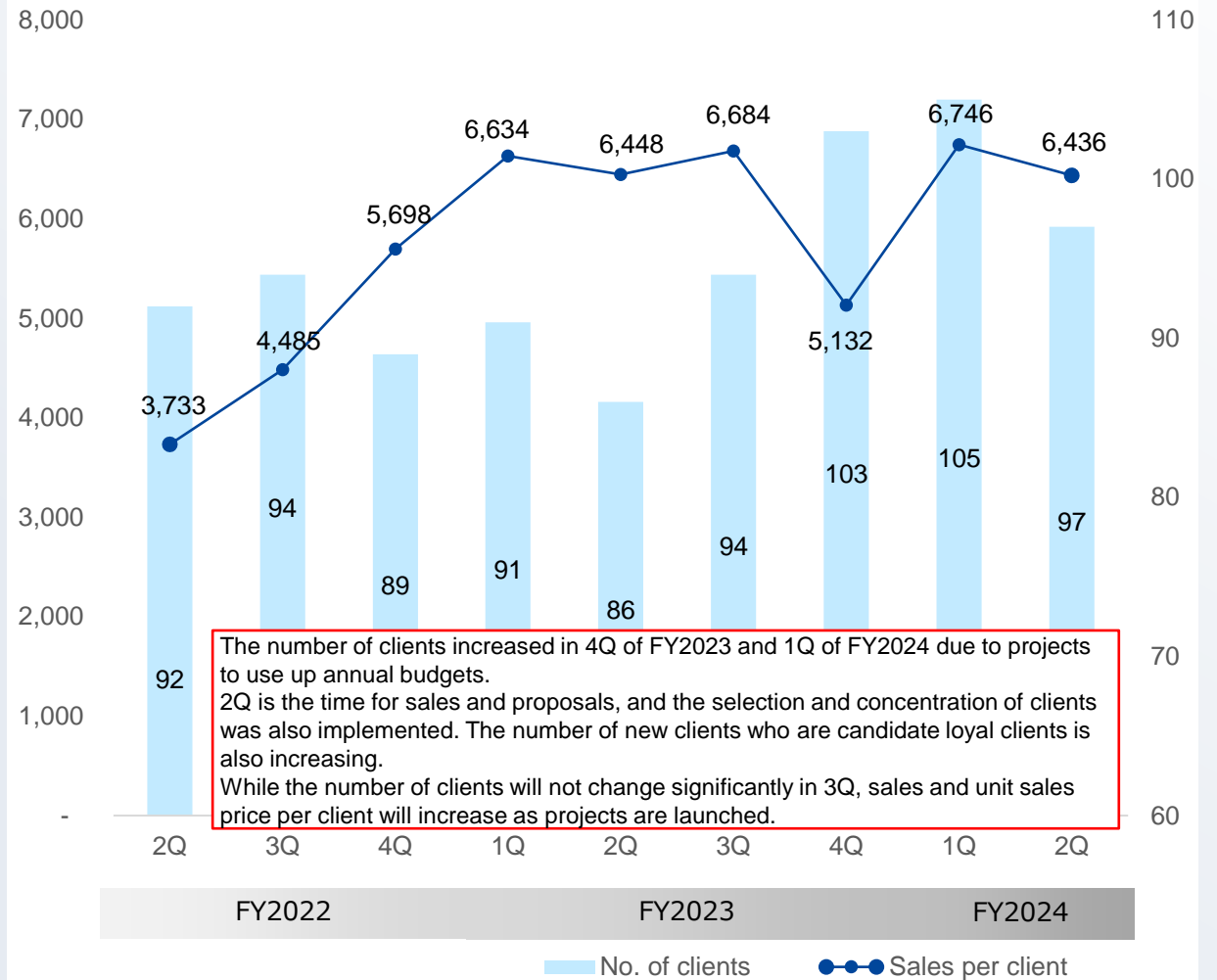
Pct. of the Contractual Chain (FY2024 cumulative)



■ Prime Contractor ■ First-tier Subcontractor ■ Second-tier Subcontractor

- Direct contracts with clients account for most of contracts.
- Even for the projects referred through alliance strategies, contracts are signed directly with the referred client.
- For enterprise companies, there may be a contract through a system subsidiary or a contract with a group company, in which case it is categorized as the first-tier subcontractor.

(Thousand yen) No. of Clients and Sales Per Client (Companies)

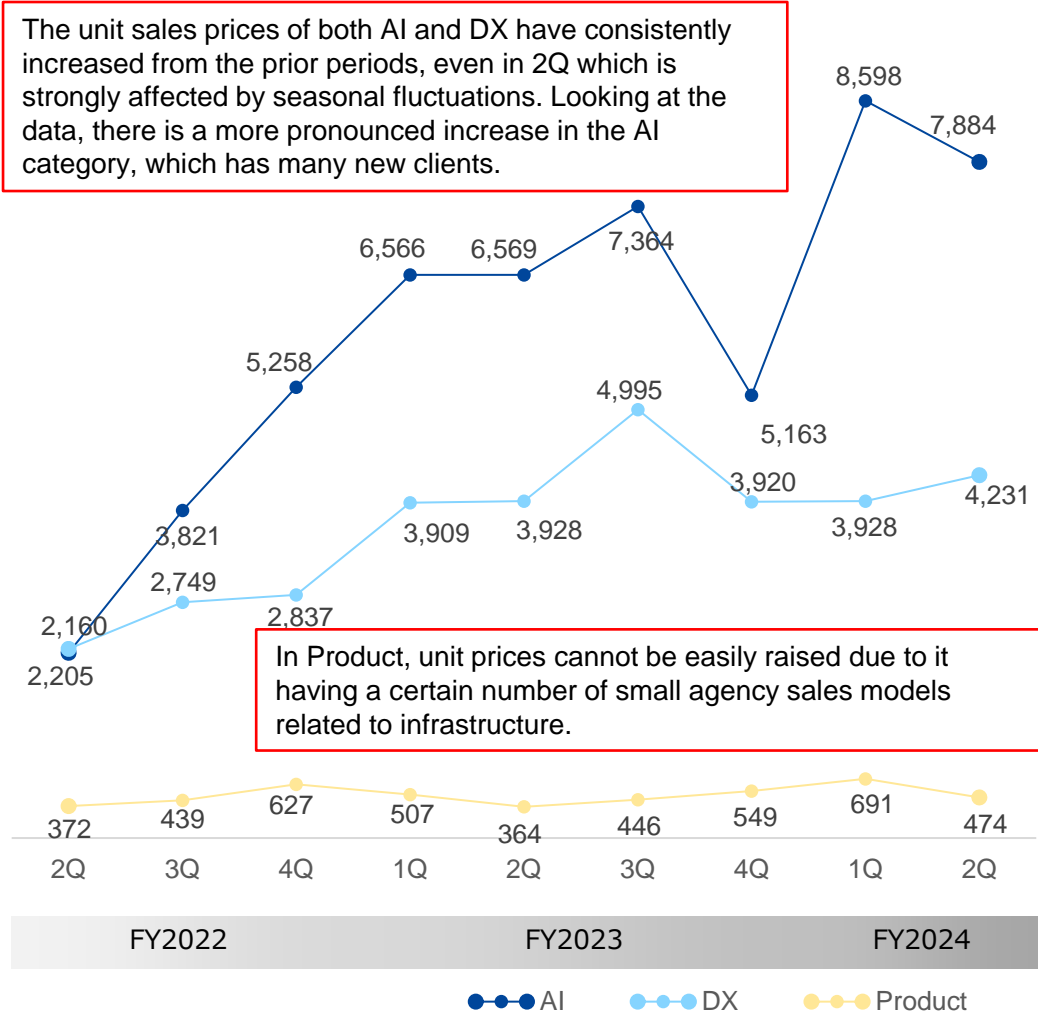


The number of clients increased in 4Q of FY2023 and 1Q of FY2024 due to projects to use up annual budgets. 2Q is the time for sales and proposals, and the selection and concentration of clients was also implemented. The number of new clients who are candidate loyal clients is also increasing. While the number of clients will not change significantly in 3Q, sales and unit sales price per client will increase as projects are launched.



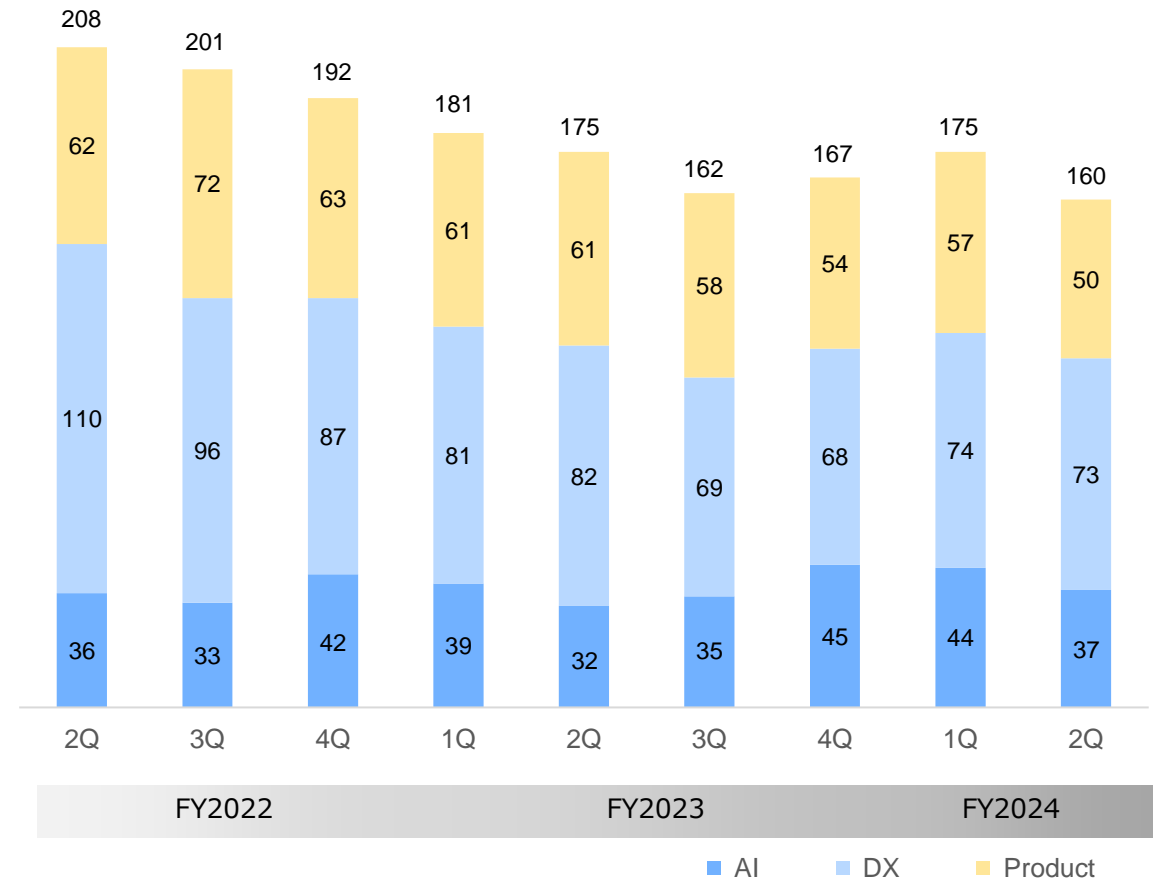
Unit Sales Price, Number of Projects and Contractual Chain Status by Service Category

Unit Sales Price by Service Category (Thousand yen)



No. of Projects by Service Category

More clients are becoming loyal, and the size of each project is growing. Keeping the number of projects to a certain level and ensuring quality will increase the LTV ratio, resulting in a stable revenue base.



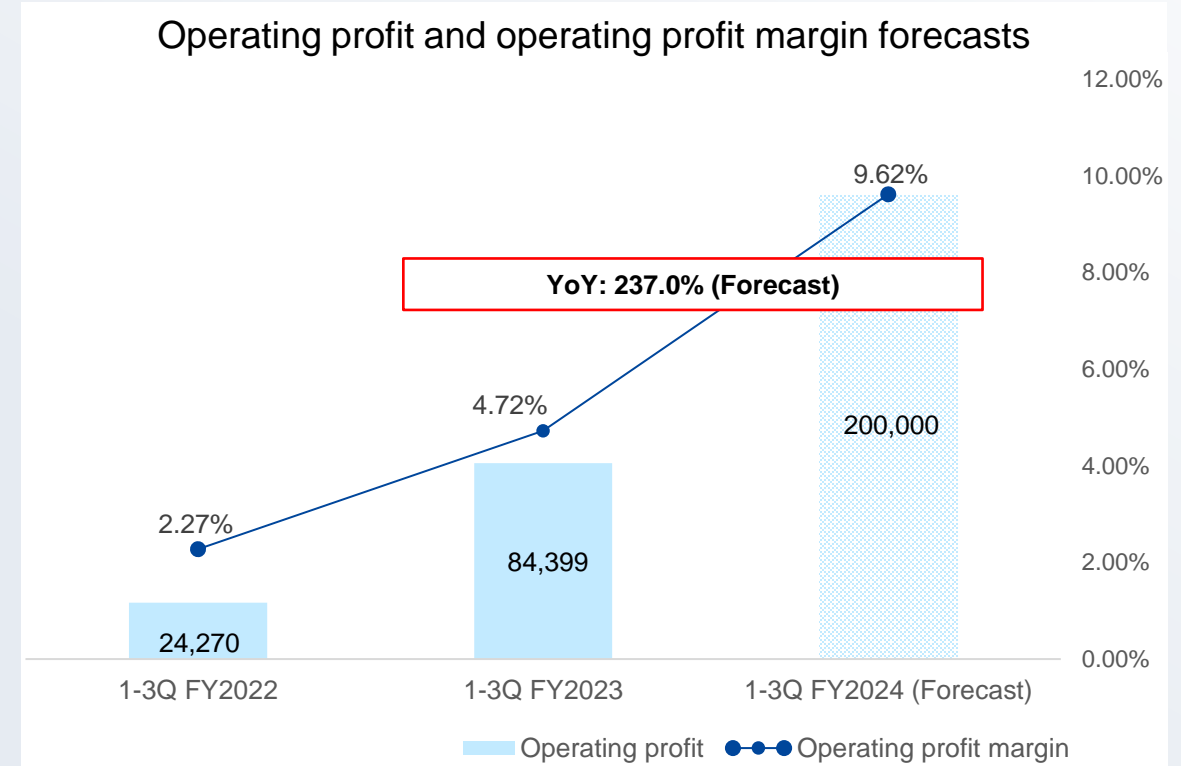
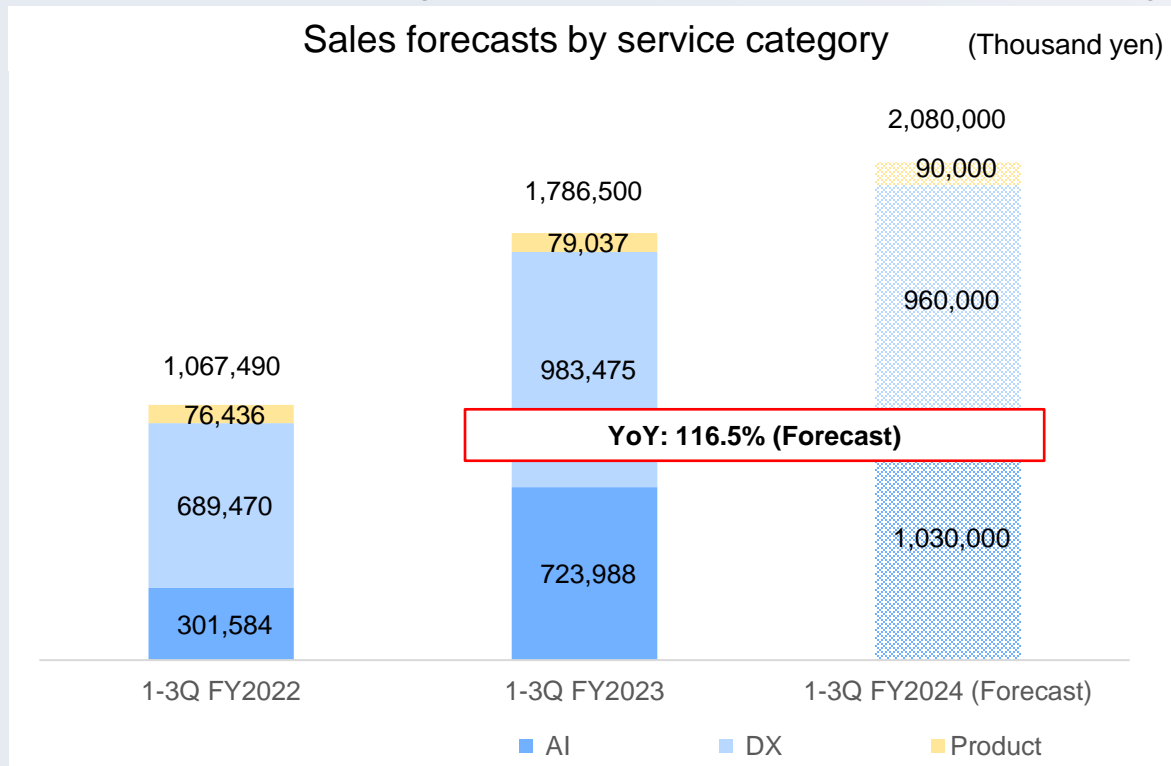
* Because the OPS Services category was discontinued from FY2024, the number of OPS projects in FY2022 and FY2023 has been allocated to the three other service categories.

▶ 3Q Revenue Forecast

In addition to ongoing large projects, projects toward the end of December and the fiscal year-end in March start in 3Q.

- Net sales: Because human resources have been secured due to steady progress in recruitment up to 2Q, **sales are forecast to be a record high**, exceeding sales in 1Q (708 million yen).
- Gross profit margin: Expected to be higher than the gross margin in 2Q (41.7%) due to higher sales in the AI category, which has a high gross margin, than 2Q.
- SG&A expenses: Forecast to be a record high due to an increase in personnel expenses as a result of steady recruitment in 3Q continuing from 2Q and the posting of recruitment expenses.
- Operating profit: Both sales and SG&A expenses are forecast to be record highs, and operating profit is expected to be 50 to 80 million yen.

On a YoY basis, steady growth is expected, as shown in the following graphs.



* Forecast figures may change as they are as of the time of disclosure of these materials.



Notes on Forward-looking Statements

- This document contains outlooks, future plans and management goals related to Headwaters. Descriptions regarding these forward-looking statements are based on assumptions made at the current moment about future events and trends, and there is no guarantee that these assumptions are accurate. Various factors may cause actual performance to significantly differ from what is described in this document.
- The figures in this document represent consolidated figures for the entire group, including Headwaters Consulting, Headwaters Professionals and DATA IMPACT JOINT STOCK COMPANY.
- In this document, numerical comparisons are presented in the following three categories.
 - **QoQ:** A comparison between the figures of the previous quarter and the current quarter
 - Comparison between figures of 1Q FY2024 and 2Q FY2024
 - **YoY:** A comparison between the cumulative figures of the previous fiscal year and the current fiscal year
 - Comparison between figures of 1H FY2023 and 1H FY2024
 - **YoY for the Quarter:** A comparison between the figures of the corresponding quarter for the previous fiscal year and the current fiscal year
 - Comparison between figures of 2Q FY2023 and 2Q FY2024
- Unless otherwise specified, the financial information in this document is based on generally accepted accounting principles in Japan.
- Information regarding companies other than Headwaters is based on generally known information.