June 7, 2024


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# Key Points of Interest Expected in the Consolidated Financial Results for the Three Months Ended April 30, 2024

The Company has published anticipated Q&A in relation to the ‘Consolidated Financial Results For the Three Months Ended April 30, 2024’ and other information published today. Please see attached for a list of expected questions and the answers.

# Key Points of Interest Expected in the Consolidated Financial Results for the Three Months Ended April 30, 2024

## ■ Progress Against Forecasts for the Three Months Ended April 30, 2024

**Q1: In terms of the first half of the fiscal year forecast, the sales progress rate is 50% and the operating profit progress rate is -¥130 million compared to the forecast of -¥120 million, which means that the Company is more likely to achieve the first half of the fiscal year forecast, but the actual situation is not clear due to the large amount of one-off expenses. What is the detail of the assessment of the consolidated financial results for the three months ended April 30, 2024?**

The internal plan for Q1 was for the operating loss to increase compared to Q4 of the previous fiscal year, but sales in Overseas Solutions and profits in each of the service category exceeded the plan, and the forecast for an increase in losses has been reduced. The Company recognizes that profits bottomed out in the Q4 of the previous fiscal year. In Q1, business liquidation costs of ¥270 million in Overseas Solutions and additional game co-development burden of ¥229 million in Media Contents were incurred as planned at the beginning of the period. Apart from this, Overseas Solutions turned profitable in Q1, and Media Contents saw its operating profit bottom out in the Q4 of the previous fiscal year, as the operating loss narrowed in Q1, even taking into account a one-off bad debt provision of ¥298 million in the Q4 of the previous fiscal year (see also p. 8 of Supplementary Information to the Financial Results). The revenue side topics for each service category are as follows.

In Domestic Solutions, recruitment costs incurred were lower than planned because of the gradual improvement in recruitment efficiency as a result of the integration of the development of sites and strengthening of the recruitment system in the previous fiscal year. The effects of the merger of Pole To Win Co., Ltd., PITCREW CO., LTD. and QaaS Co., Ltd. in February 2022 and the ongoing management integration and reforms are being seen in various areas.

In Overseas Solutions, as indicated on p. 10 of the Supplementary Information to the Financial Results, the number of employees decreased by 552 between the Q4 of the previous fiscal year and Q1 of current fiscal year, and as a result of headcount adjustments, operating profit was secured when looking at existing business excluding business liquidation costs. The environment in the gaming industry is picking up but attention needs to be paid to foreign exchange trends, as the yen's depreciation is also having a sales boosting effect.

In Media Contents, in order to first secure the scale and foundation of the business, the Group merged CREST Inc. (currently known as HIKE Inc.), QBIST Inc. and SANETTY Produce Co., Ltd. in a short period of time, and acquired AQUAPLUS CO., Ltd and SHiiTAKE DiGiTAL, Ltd. The company is currently in the process of integrating its unprofitable businesses, and is also working on the establishment of new businesses while consolidating and unifying its management structure. Although some unplanned costs in the process has incurred, it is believed that it will gradually move into a phase of stable business expansion and profitability, and the Group will continue to invest in growth.

**Q2: If there is greater certainty that the H1 of the fiscal year forecast will be achieved, why not revise the forecast?**

In Q1, there was no significant deviation from the plan and both sales and profits exceeded the internal plan. However, due to the weakness of orders from some clients in Domestic Solutions and the possibility of additional unprofitable business liquidation in Overseas Solutions and Media Contents, the decision to revise the forecast has not been made at this time. (see also p. 16 of Supplementary Information to the Financial Results).

**Q3: The full-year forecast appears to be a much higher hurdle than in the first half of the current fiscal year, but do you expect a recovery in performance to be that strong? Is there any fear of a reduction?**

Sales (H1 of FY:H2 of FY) in the previous fiscal year (47%:53%) and the current fiscal year's plan is (46%:54%), a similar assumption to previous fiscal years. There is a seasonal tendency for home video game software testing to operate at higher levels in the second half of the fiscal year, and for animation production deliveries and stage business entertainment to be more frequent in the second half of the fiscal year. In terms of profit, the planned operating profit margin for the second half of the fiscal year is 8.3%, which, when viewed against the operating profit margin results of previous periods with low one-off costs, is not a high hurdle and is in the process of achieving an operating profit margin of 10% in FY2029. However, it is based on the current forecast, and if unplanned events occur, the performance forecast will be scrutinized, and if the impact is deemed to be material, it will be disclosed promptly.

**Q4: As the recent yen's depreciation is continuing to progress negatively, we would like to know how this will affect the current financial results.**

In Overseas Solutions, sales were Q1 in the previous fiscal year: ¥3.6 billion to Q1:¥4.3 billion, an increase of ¥0.7 billion. This includes growth in existing businesses +¥0.3 billion and the impact of the yen's depreciation +¥0.4 billion.

**Q5: Following from the previous fiscal year, there has been a loss on valuation of investment securities. Please explain.**

For marketable shares (one issue) held for the purpose of establishing, maintaining and strengthening business relationships, the market value as of the end of the quarter fell more than 50% below its acquisition cost and is not expected to recover, so the valuation difference (¥49 million) was treated as a loss for the period.

## ■ Business Environment and Strategy

**Q6: Has there been any progress on the business-specific strategies etc. presented in the Supplementary Information to the Financial Results?**

It is very diverse, so some of the initiatives are listed as below.

**Domestic Solutions: 'DX and AI in operations to improve labor productivity'**

Pole To Win, Inc. has announced the development of 'FACT', a project management tool designed to standardize work, improve efficiency and quality assurance, create new businesses and develop human resources through big data analysis. 'FACT' is automatically linked to Tencent's 'WeTest' testing platform, making it possible to provide a one-stop service from test design to execution and analysis of test results.

**Overseas Solutions: 'Increasing labor productivity through the use of AI in operations'**

The PTW International Group is developing AI and machine extension solutions and offers ‘RESOLVE’ as one of the new products in its user support business. A video aired at the management update meeting after the General Meeting of Shareholders can be seen as below.

<Link for the video>

**Media Contents: 'In addition to outsourced production, we are also investing in production to increase our highly profitable licensing income.'**

HIKE Inc. has delivered the theatre animation 'A Few Moments of Cheers' and the TV animation 'Quality Assurance in Another World.', both of which are funded and prime contractor production titles.

## ■ Changes to the Method of Payment of Dividends

**Q7: Along with the disclosure of the financial results, the disclosure of 'Notice of interim dividends payment and revision of dividends forecast' was issued, but will the dividends be increased?**

It is not an increase in the dividends, but a change in the dividends' frequency. The annual dividends are ¥16 per share, as announced at the beginning of the fiscal year, with an interim dividend of ¥8 and a year-end dividend of ¥8, instead of the previous, once at the end of the fiscal year. In view of the recovery in performance since Q1, and in order to enhance opportunities to return profits to shareholders and reward continued ownership of our shares, we have decided to change the method of paying dividends. The Company plans to continue to pay interim and year-end dividends.

## ■ Changes in Accounting Policies and Service Category

**Q8: Retrospective adjustments have been made to the previous fiscal year's financial figures, what are they, why and what is the impact?**

The following changes in accounting policies and presentation were made in the current fiscal year under review.

① **Changes in Accounting Policies (Changes in the Method of Converting Profit and Expenses of Foreign Subsidiaries)**

Profit and expenses of overseas subsidiaries had previously been converted into yen at the spot exchange rate on the date of account settlement, but the importance of the results of overseas subsidiaries has increased in recent years amid significant fluctuations in exchange rates, and is expected to increase in the future due to the expansion of the overseas product business for general consumers. In order to mitigate the impact of temporary fluctuations in exchange rates on periodic profit and loss and to more appropriately reflect the performance of overseas subsidiaries, the Company has changed to a method of converting into yen at the average exchange rate during the period effective from the year under review.

② **Change in Presentation (Change in Classification of PTW Japan Co., Ltd. and Other Operations)**

The results of PTW Japan Co., Ltd. and Delfi Sound Inc., which were previously included in 'Domestic Solutions', are now included in 'Overseas Solutions' for the fiscal year under review, as the classification method has been changed to one based on business management categories rather than the location of the company.

In order to reflect these changes in accounting policies and presentation, the previous fiscal year (FY 2024) has been presented and comparatively analyzed using retrospectively adjusted figures, the impact of which is shown below.

- **Impact on Consolidated Results**

**(Before revision)** (Unit: Millions of Yen)

| | Previous Q1 | Previous Q2 | Previous Q3 | Previous Q4 | Total (full FY) |
|---|---|---|---|---|---|
| Net sales | 10,948 | 11,391 | 11,919 | 12,719 | 46,980 |
| Operating profit | 294 | 197 | 185 | -272 | 404 |
| Ordinary profit | 330 | 92 | 389 | -302 | 509 |
| Profit attributable to owners of parent | 95 | -450 | 63 | -1,676 | -1,967 |

**(Amounts adjusted for changes in accounting policies)** (Unit: Millions of Yen)

| | Previous Q1 | Previous Q2 | Previous Q3 | Previous Q4 | Total (full FY) |
|---|---|---|---|---|---|
| Net sales | -24 | -431 | -182 | +382 | -255 |
| Operating profit | +3 | +69 | -46 | +15 | +41 |
| Ordinary profit | +0 | +24 | -39 | +30 | +16 |
| Profit attributable to owners of parent | +1 | +31 | -33 | +46 | +46 |

**(After revision)** (Unit: Millions of Yen)

| | Previous Q1 | Previous Q2 | Previous Q3 | Previous Q4 | Total (full FY) |
|---|---|---|---|---|---|
| Net sales | 10,924 | 10,960 | 11,737 | 13,102 | 46,724 |
| Operating profit | 298 | 266 | 138 | -257 | 445 |
| Ordinary profit | 331 | 116 | 350 | -272 | 525 |
| Profit attributable to owners of parent | 97 | -418 | 30 | -1,629 | -1,920 |

- **Impact on Net Sales and Operating Profit by Business Sector**

**(Before revision)**

(Unit: Millions of Yen)

| | | Previous Q1 | Previous Q2 | Previous Q3 | Previous Q4 | Total (full FY) |
|---|---|---|---|---|---|---|
| Domestic Solutions | Net sales | 6,316 | 6,422 | 6,950 | 7,234 | 26,925 |
| | Operating profit | 305 | 392 | 241 | 565 | 1,504 |
| Overseas Solutions | Net sales | 3,045 | 3,304 | 3,644 | 2,954 | 12,949 |
| | Operating profit | 68 | -134 | 415 | -227 | 123 |
| Media Contents | Net sales | 1,586 | 1,664 | 1,324 | 2,530 | 7,105 |
| | Operating profit | 12 | 42 | -404 | -612 | -961 |

**(Amounts adjusted for changes in accounting policies)**

(Unit: Millions of Yen)

| | | Previous Q1 | Previous Q2 | Previous Q3 | Previous Q4 | Total (full FY) |
|---|---|---|---|---|---|---|
| Domestic Solutions | Net sales | - | - | - | - | - |
| | Operating profit | - | - | - | - | - |
| Overseas Solutions | Net sales | -24 | -429 | -181 | +381 | -253 |
| | Operating profit | +0 | +50 | -36 | +20 | +35 |
| Media Contents | Net sales | -0 | -1 | -1 | +1 | -1 |
| | Operating profit | -0 | +2 | +0 | -0 | +2 |

**(Amounts reclassified due to change in presentation)**

(Unit: Millions of Yen)

| | | Previous Q1 | Previous Q2 | Previous Q3 | Previous Q4 | Total (full FY) |
|---|---|---|---|---|---|---|
| Domestic Solutions | Net sales | -653 | -787 | -934 | - 1,024 | -3,401 |
| | Operating profit | +22 | +30 | +11 | -57 | +7 |
| Overseas Solutions | Net sales | +653 | +787 | +934 | +1,024 | +3,401 |
| | Operating profit | -25 | -70 | -17 | +86 | -27 |
| Media Contents | Net sales | - | - | - | - | - |
| | Operating profit | - | - | - | - | - |

**(After revision)**

(Unit: Millions of Yen)

| | | Previous Q1 | Previous Q2 | Previous Q3 | Previous Q4 | Total (full FY) |
|---|---|---|---|---|---|---|
| Domestic Solutions | Net sales | 5,663 | 5,634 | 6,015 | 6,209 | 23,523 |
| | Operating profit | 327 | 422 | 253 | 507 | 1,511 |
| Overseas Solutions | Net sales | 3,675 | 3,662 | 4,398 | 4,360 | 16,096 |
| | Operating profit | 43 | -154 | 362 | -120 | 130 |
| Media Contents | Net sales | 1,586 | 1,662 | 1,323 | 2,531 | 7,104 |
| | Operating profit | 12 | 44 | -404 | -612 | -959 |

## ■ Regarding Governance

**<u>Q9: Last fiscal year saw a series of subsidiary frauds, downward revisions and corrections to financial results, and we would like to know about current governance initiatives.</u>**

We are deeply sorry for the repeated scandals in the previous fiscal year.

With regard to the subsidiary fraud, an amendment report to the internal control report was submitted on December 12, 2023 as there were material deficiencies that should have been disclosed, but various improvement efforts were made based on the recommendations of the special investigation committee, and on April 26, 2024 the material deficiencies that should have been disclosed were corrected and the internal control was effective. In April 2024, an external director of the Company was dispatched as a non-executive director of the subsidiary concerned to strengthen controls.

With regard to downward revisions and corrections to accounts, the Company and its subsidiaries have strengthened their accounting systems, consolidated accounts schedule management and performance forecast monitoring systems.

In addition, at the General Meeting of Shareholders in April 2024, the company is working to increase the ratio of external directors (from 5:12 = 41.7% to 6:13 = 46.2%) as part of its efforts to strengthen governance, and to improve diversity by appointing corporate executives, investors and lawyers (two of whom are women).