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Consolidated Financial Results for the First Quarter of the Fiscal Year Ending February 28, 2025 (Japanese GAAP)

July 12, 2024

Company name  MetaReal Corp. Listing Market TSE

Stock Code 6182 URL <https://www.metareal.jp>

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Scheduled date of filing of quarterly report: July 12, 2024 Scheduled date of commencement of dividend payment -

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results briefing: Yes

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending February 28, 2025 (March 1, 2024-May 31, 2024)

(1) Consolidated Results of Operation (Cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Q1 FY2/25	1,135	15.4	211	89.8	207	66.2	135	127.3
Q1 FY2/24	983	△7.0	111	6.4	124	7.5	59	6.4

(Note) Comprehensive income Q1 FY2/25 136 Millions of yen (129.5%) Q1 FY2/24 59 Millions of yen (6.4%)

	Net income per share	Diluted net income per share
	Yen	Yen
Q1 FY2/25	12.56	12.43
Q1 FY2/24	5.57	5.47

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
Q1 FY2/25	4,600	1,818	38.6
FY2/24	4,458	1,681	36.8

(Reference) Shareholders' equity Q1 FY2/25 1,777 Millions of yen FY2/24 1,640 Millions of yen

2. Dividend payment

	Annual dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2/24	-	0.00	-	0.00	0.00
FY2/25	-	-	-	-	-
FY2/25 (Forecast)	-	0.00	-	0.00	0.00

(Note) Revisions to the most recently announced dividend forecast: None

3. Consolidated Business Forecasts for the Fiscal Year Ending February 28, 2025 (March 1, 2024 to February 28, 2025)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	4,946	18.4	412	△44.8	-	-	-	-	-

(Note) 1. Revisions to the most recently announced business forecasts: None

2. [Ordinary income], [Net income attributable to owners of the parent] and [Net income per share] in the consolidated business forecasts for the fiscal year ending February 28, 2025 are not disclosed at this time because, although uncertainty in financial plans such as fund-raising in terms of both liabilities and equity due to Metareal AI of new businesses has been mitigated, they include items with high forecasting difficulties such as non-operating income (loss) and extraordinary income (loss). We plan to disclose specific figures promptly once we are able to make more accurate projections.

◆ Consolidated Business Forecasts by Segment

(Percentages indicate year-on-year changes.)

	Net sales		Operating income	
	Millions of yen	%	Millions of yen	%
Full year				
AI business	3,600	17.8	519	△44.5
HT business	1,146	2.6	210	44.7
Metaverse business	200	-	△200	-
Other corporate expenses	-	-	△118	-

(Note) Since the second quarter of the fiscal year ended February 28, 2024, the name of the reportable segment that had been the [MT business] has changed to the [AI business].

Previously, the segment centered on AI translation was the [MT business]. However, as for our corporate strategy and current situation, we are looking toward broader AI services, including [generative AI], and we have changed the name to the [AI business] to represent the actual situation more appropriately.

This is only a name change, and we have not revised the numerical classification.

In addition, future growth-strategy projects related to Metareal AI include forms such as consigned development-type projects, performance-based quasi-delegation, and licensing as usage rights. The recording of sales varies greatly depending on the delivery of products, the timing of acceptance inspections, and the period of licensing (and various conditions in licensing). Accordingly, there is a difference in the recording of sales between quarters. Our annual business forecasts are based on the difference between the quarterly figures for each fiscal year, and there is a possibility that changes in the timing of recording them to the quarter may occur due to differences in the timing of acceptance inspections.

※ Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(Note) For details, please refer to [2.Quarterly Consolidated Financial Statements, (3) Notes on Quarterly Consolidated Financial Statements (Application of Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements)] on page 7 of the Appendix.

(3) Changes in accounting policies, changes in accounting estimates and restatements

① Changes in accounting policies due to revision of accounting standards: None

② Changes in accounting policies other than ①: None

③ Changes in accounting estimates: None

④ Restatements: None

(4) Number of shares outstanding (common stock)

① Number of shares outstanding at the end of the period (including treasury stock)

Q1 FY2/25	10,769,660 shares	FY2/24	10,768,460 shares
Q1 FY2/25	490 shares	FY2/24	490 shares
Q1 FY2/25	10,768,648 shares	Q1 FY2/24	10,687,992 shares

② Treasury shares at the end of the year

③ Average number of shares outstanding during the period (cumulative)

※ This quarterly financial report is not subject to the quarterly review by a certified public accountant or an auditing firm.

* Explanations and other special notes concerning the appropriate use of business forecasts

(Cautionary Statement with Respect to Forward-Looking Statements)

Forecasts of future performance and other forward-looking statements in this document are based on information currently available to the Company and certain assumptions that the Company deems to be reasonable at the time this report was prepared. The Company makes no promises concerning their achievement. Actual results may differ significantly from the forecasts due to various factors. Please refer to [1. Qualitative Information on Consolidated Financial Results (3) Consolidated Business Forecasts] on page 3 of the Appendix for the assumptions underlying the forecasts and cautions concerning the use thereof.

(Method of Obtaining Financial Results Briefing Materials)

Supplementary materials for financial results were disclosed on the TDnet on the same date.

○ Table of Contents of the Appendix

1. Qualitative Information on Quarterly Financial Results	2
(1) Results of Operations	2
(2) Financial Position	2
(3) Consolidated Business Forecasts	3
2. Quarterly Consolidated Financial Statements and Major Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income	5
Quarterly Consolidated Statements of Income	
For the Three-month Period	5
Quarterly Consolidated Statements of Comprehensive Income	
For the Three-month Period	6
(3) Notes on Quarterly Consolidated Financial Statements	7
(Notes on Going Concern Assumptions)	7
(Notes on Significant Changes in Shareholders' Equity)	7
(Application of Accounting Procedures Specific to Preparation of the Quarterly Consolidated Financial Statements)	7
(Notes to the Quarterly Consolidated Statements of Income)	7
(Segment Information)	8
(Per share Information)	10
(Significant Subsequent Events)	10

1. Qualitative Information on Quarterly Financial Results

(1) Results of Operations

During the first quarter of the current fiscal year (March 1 to May 31, 2024), orders received, sales, and operating income in the AI business hit record highs. In the HT business segment, income compared to the same period of the previous fiscal year decreased, but the amount of loss incurred in the Metaverse business decreased.

As a result, our group posted net sales of 1,135,459 thousand yen (up 15.4% year on year), operating income of 211,943 thousand yen (up 89.8% year on year), ordinary income of 207,524 thousand yen (up 66.2% year on year), and profit attributable to owners of parent of 135,200 thousand yen (up 127.3% year on year) for the cumulative first quarter of the current fiscal year.

The performance of each business segment is as follows:

Since the second quarter of the previous consolidated fiscal year, the name of the reportable segment of the [MT business] has changed to the [AI business]. This change had no impact on segment information.

Since the previous fiscal year, we have also changed the method of measuring income or loss of business segments in order to more appropriately evaluate the results of operations by reportable segment. Comparisons and analyses for the first quarter of the current fiscal year are based on the new measurement method.

① AI business

As for the AI business, orders received were steady, rising to 985,066 thousand yen (up 9.2% year on year). Sales were 893,638 thousand yen (up 25.6% year on year), mainly due to the impact of consigned projects. Segment income was 288,765 thousand yen (up 79.9% year on year), including the impact of upfront spending on the new [Metareal AI] business. As for the [Metareal AI] project, which was developed and provided in the fiscal year ended February 28, 2024 as a growth measure in the short to medium term, we have aimed to contribute to results at an early stage. To achieve this, we have started various proposals and sales using generative AI, mainly for major customers, which has led to large-scale orders.

② HT business

As for the HT business, sales were 241,464 thousand yen (down 10.9% year on year), and segment income was 18,686 thousand yen (down 43.2% year on year).

③ Metaverse business

Medium-to-short-term growth measures were shifted to the [Metareal AI] project. The Metaverse business reduced investment from a long-term perspective by 10±5 years. As a result, sales were 356 thousand yen (down 75.4% year on year), and segment loss was 49,613 thousand yen (segment loss of 55,219 thousand yen in the same period of the previous fiscal year).

(2) Financial Position

(Assets)

Current assets increased by 192,846 thousand yen from the end of the previous fiscal year to 3,720,988 thousand yen at the end of the first quarter of the current fiscal year. This was due mainly to an increase of 177,371 thousand yen in notes, accounts receivable, and contract assets and a decrease of 8,836 thousand yen in cash and deposits. Non-current assets decreased by 50,676 thousand yen from the end of the previous fiscal year to 879,223 thousand yen. This was due mainly to a decrease of 9,249 thousand yen in property, plant, and equipment and a decrease of 40,094 thousand yen in intangible assets.

(Liabilities)

Current liabilities increased by 141,382 thousand yen from the end of the previous fiscal year to 2,147,333 thousand yen at the end of the first quarter of the current fiscal year. This was due mainly to an increase of 178,013 thousand yen in advances received. Non-current liabilities decreased by 135,909 thousand yen from the end of the previous fiscal year to 634,709 thousand yen. This was due mainly to a decrease of 83,995 thousand yen in long-term debt and a decrease of 45,000 thousand yen in bonds.

(Net assets)

Net assets increased by 136,697 thousand yen from the end of the previous fiscal year to 1,818,168 thousand yen at the end of the first quarter of the current fiscal year. This was due mainly to an increase of 135,200 thousand yen in retained earnings as a result of recording profit attributable to owners of the parent.

(3) Consolidated Business Forecasts

Our two management themes for the future are:

① Expansion of the business base for AI translation targeting specialized industry documents to the generative AI business

By utilizing specialized document data such as [T-400] that has been highly valued by customers as an AI translation for [specialized documents for specific industries] and a customer base of more than 6000 companies, we will expand the area from the narrow domain of translation to the entire process of document preparation, while narrowly concentrating on [specialized documents for specific industries]. Through consigned development, joint development, and SaaS products, we will resolve issues such as the speed and artificial number of issues related to the preparation of specialized documents for customers.

As a result of the trial-and-error approach to various AI solution products and services last year, as in the case of AI translation, we were able to be certain that we would be successful in concentrating and selecting [specialized documents for specific industries] in the same manner as AI translation (areas where demand is certain and we have a competitive edge). As a result, our management policy for this fiscal year is to switch from maximizing profits to accelerating growth, make decisive upfront investments to expand sales of the AI business, and aim for sales of 9 billion yen (consolidated sales of 10 billion yen) in three years (fiscal year ending February 28, 2027).

② Commenced provision of outsourced development solutions utilizing AI technology that automatically generates digital twins in the Metaverse business

As a long-term growth strategy aiming to achieve results in 10 years or less or five years, the Metaverse business is addressing the task of the [Metaverser] concept and its method [Metaverse×AI]. In particular, from this fiscal year we will focus on starting to provide outsourced development solutions using AI technologies that automatically generate digital twins.

Previous methods of digital twin-building included [3D Laser Scan] and [Combination of Plane Capture Images]. However, there were issues such as trouble and cost in the former, and limitations in viewpoints and perspectives in the latter. Accordingly, we will provide outsourced AI-development solutions that automatically generate photo digital twins from videos taken on a smartphone without special equipment or work by using the next-generation 3D spatial configuration technique [Gaussian Splatting]. Use cases are assumed for industries centered on the construction, real estate, and manufacturing industries.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (February 29, 2024)	Current first quarter (May 31, 2024)
Assets		
Current assets		
Cash and deposits	3,077,184	3,068,348
Notes, accounts receivable and contract assets	210,127	387,499
Inventories	18,100	24,737
Other	229,434	250,064
Allowance for doubtful accounts	△6,705	△9,660
Total current assets	3,528,142	3,720,988
Non-current assets		
Property, plant and equipment	60,997	51,747
Intangible assets		
Software	419,465	370,248
Software in progress	2,837	13,647
Other	10,090	8,403
Total intangible assets	432,393	392,299
Investments and other assets		
Investment securities	142,542	144,270
Other	327,232	315,688
Allowance for doubtful accounts	△33,266	△24,782
Total investments and other assets	436,508	435,176
Total non-current assets	929,899	879,223
Total assets	4,458,042	4,600,211
Liabilities		
Current liabilities		
Notes and accounts payable-trade	65,323	56,839
Short-term borrowings	100,000	-
Current portion of long-term loans payable	400,980	380,980
Current portion of corporate bonds	164,000	164,000
Income taxes payable	88,954	105,364
Provision for bonuses	45,632	92,263
Advances received	814,062	992,076
Other	326,998	355,809
Total current liabilities	2,005,951	2,147,333
Non-current liabilities		
Corporate bonds	359,000	314,000
Long-term debt	398,570	314,575
Other	13,049	6,134
Total non-current liabilities	770,619	634,709
Total liabilities	2,776,571	2,782,043
Net assets		
Shareholders' equity		
Common stock	792,541	792,639
Capital surplus	1,766,488	1,766,586
Retained earnings	△918,731	△783,530
Treasury stock	△986	△986
Total shareholders' equity	1,639,312	1,774,708
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,011	2,313
Total accumulated other comprehensive income	1,011	2,313
Share subscription rights	41,146	41,146
Total net assets	1,681,470	1,818,168
Total liabilities and net assets	4,458,042	4,600,211

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the Three-month Period)

(Thousands of yen)

	Previous first quarter (From March 1, 2023 to May 31, 2023)	Current first quarter (From March 1, 2024 to May 31, 2024)
Net sales	983,792	1,135,459
Cost of sales	332,537	348,810
Gross profit	651,254	786,648
Selling, general and administrative expenses		
Salaries, allowances and bonuses	159,087	160,861
Research and development expenses	51,999	50,017
Provision for bonuses	31,312	33,449
Retirement benefit expenses	1,935	1,748
Other	295,267	328,629
Total selling, general and administrative expenses	539,601	574,705
Operating income	111,652	211,943
Non-operating income		
Interest income	11	6
Foreign exchange gain	650	-
Subsidy income	16	-
Gain on forgiveness of dividends payable	-	203
Reversal of allowance for doubtful accounts	20,875	-
Cash-back income	-	133
Other	1,270	163
Total non-operating income	22,824	507
Non-operating expenses		
Interest expenses	2,669	2,174
Share of loss of investments accounted for using equity method	6,246	1,452
Foreign exchange loss	-	1,128
Other	697	169
Total non-operating expenses	9,613	4,925
Ordinary income	124,863	207,524
Special income		
Income on sales of non-current assets	831	127
Gain on sale of investment securities	-	19,999
Other	-	400
Total special income	831	20,527
Special loss		
Loss on sales and retirement of noncurrent assets	-	0
Impairment loss	2,826	5,965
Total special loss	2,826	5,965
Income before income taxes	122,868	222,086
Income taxes	63,388	86,885
Net income	59,480	135,200
Net income attributable to owners of parent	59,480	135,200

(Quarterly Consolidated Statement of Comprehensive Income)
(For the Three-month Period)

(Thousands of yen)

	Previous first quarter (From March 1, 2023 to May 31, 2023)	Current first quarter (From March 1, 2024 to May 31, 2024)
Net income	59,480	135,200
Other comprehensive income		
Valuation difference on available-for-sale securities	-	1,301
Total other comprehensive income	-	1,301
Comprehensive income	59,480	136,502
Comprehensive income (loss) attributable to:		
Owners of parent	59,480	136,502
Non-controlling interests	-	-

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Application of Accounting Procedures Specific to Preparation of the Quarterly Consolidated Financial Statements)

Income taxes are calculated by multiplying the income before income taxes by the forecasted effective tax rate, which is computed by matching the forecasted yearly income taxes with the forecasted yearly income before taxes.

However, if the calculation of tax expenses using the estimated effective tax rate yields a highly unreasonable result, then the statutory tax rate is used.

(Notes to the Quarterly Consolidated Statements of Income)

(Gain on sales of investment securities)

Previous first quarter (From March 1, 2023 to May 31, 2023)

Not applicable.

Current first quarter (From March 1, 2024 to May 31, 2024)

This was due to the sale of one share subscription right (VoiceApp, Inc.) of a non-listed domestic company, out of the investment securities we hold.

(Segment Information)

[Segment Information]

I Previous first quarter (From March 1, 2023 to May 31, 2023)

1. Information on net sales and income or loss by reportable segment and breakdown of income

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1)	Amounts on the consolidated financial statements (Note 2)
	AI business	HT business	Metaverse business	Total		
By type of goods or services						
Machine translation	687,478	8,149	-	695,627	-	695,627
Human translation	17,624	262,731	-	280,355	-	280,355
Metaverse	-	-	1,449	1,449	-	1,449
Consigned development	6,359	-	-	6,359	-	6,359
Revenue from contracts with customers	711,461	270,880	1,449	983,792	-	983,792
Revenue recognition by period						
Goods or services that are transferred at one time	63,766	235,123	943	299,832	-	299,832
Goods or services that are transferred over a period of time	647,695	35,757	506	683,959	-	683,959
Revenue from contracts with customers	711,461	270,880	1,449	983,792	-	983,792
Net sales to unaffiliated customers	711,461	270,880	1,449	983,792	-	983,792
Intersegment sales or transfer	1,535	12,457	-	13,993	△13,993	-
Total	712,997	283,337	1,449	997,785	△13,993	983,792
Segment income or loss (△)	160,516	32,909	△55,219	138,205	△26,552	111,652

(Note) 1. Adjustments to segment income or loss (△) of △26,552 thousand yen include an elimination of intersegment transactions of 52,443 thousand yen and a corporate expenses not attributable to reportable segments of △78,995 thousand yen. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.

2. Segment income or loss (△) is adjusted with operating income in the quarterly consolidated statements of income.

2. Information on impairment loss on noncurrent assets or goodwill by reportable segment

(Significant impairment loss on noncurrent assets)

This information is omitted because it is not material.

II Current first quarter (From March 1, 2024 to May 31, 2024)

1. Information on net sales and income or loss by reportable segment and breakdown of income

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1)	Amounts on the consolidated financial statements (Note 2)
	AI business (Note 3)	HT business	Metaverse business	Total		
By type of goods or services						
Machine translation	685,574	6,538	-	692,113	-	692,113
Human translation	13,553	234,925	-	248,479	-	248,479
Metaverse	-	-	356	356	-	356
Consigned development	194,510	-	-	194,510	-	194,510
Revenue from contracts with customers	893,638	241,464	356	1,135,459	-	1,135,459
Revenue recognition by period						
Goods or services that are transferred at one time	185,587	209,859	73	395,519	-	395,519
Goods or services that are transferred over a period of time	708,050	31,605	283	739,939	-	739,939
Revenue from contracts with customers	893,638	241,464	356	1,135,459	-	1,135,459
Net sales to unaffiliated customers	893,638	241,464	356	1,135,459	-	1,135,459
Intersegment sales or transfer	800	10,846	4,178	15,824	△15,824	-
Total	894,438	252,310	4,535	1,151,284	△15,824	1,135,459
Segment income or loss (△)	288,765	18,686	△49,613	257,839	△45,895	211,943

(Note) 1. Adjustments to segment income or loss (△) of △45,895 thousand yen include an elimination of intersegment transactions of 61,899 thousand yen and a corporate expenses not attributable to reportable segments of △107,795 thousand yen. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.

2. Segment income or loss (△) is adjusted with operating income in the quarterly consolidated statements of income.

3. Sales related to generative AI are included in [Machine translation] for platform-type sales, and sales related to consigned development are included in [Consigned development].

2. Information on impairment loss on noncurrent assets or goodwill by reportable segment

(Significant impairment loss on noncurrent assets)

This information is omitted because it is not material.

3. Changes in reportable segments

(Change of Segment Name)

Since the second quarter of the previous consolidated fiscal year, the name of the reportable segment of the [MT business] has changed to the [AI business]. This change was made to the segment name only. There was no impact on segment information. Segment information for the first quarter of the previous consolidated fiscal year also is presented under the new name.

(Changes in Measurement Method for Income or Loss of Business Segments)

In order to more appropriately evaluate the results of operations by reportable segment, we have decided to revise the allocation of expenses in the headquarters function in response to the increasing importance of company-wide management as the scope of business expansion and other changes in our group in recent years have increased. Accordingly, the effects of cost-reduction activities undertaken by the administrative departments of the head office were included in adjustments to segment income. However, from the previous fiscal year, we have changed the allocation method in light of the ratio of services provided to each company from the administrative departments of the head office.

Segment information for the first quarter of the previous consolidated fiscal year is prepared based on the new measurement method for reportable segment income or loss.

(Per share Information)

Net income per share and the basis for calculating it, and diluted net income per share and the basis for calculating it are as follows.

	Previous first quarter (From March 1, 2023 to May 31, 2023)	Current first quarter (From March 1, 2024 to May 31, 2024)
(1) Net income per share	5.57 yen	12.56 yen
(Basis of calculation)		
Net income attributable to owners of parent (thousands of yen)	59,480	135,200
Amount not attributable to common shareholders (thousands of yen)	-	-
Net income attributable to owners of parent related to common stock (thousands of yen)	59,480	135,200
Average number of shares of common stock outstanding during the period (shares)	10,687,992	10,768,648
(2) Diluted net income per share	5.47 yen	12.43 yen
(Basis of calculation)		
Adjustment to net income attributable to owners of parent (thousands of yen)	-	-
Increase in number of common shares (shares)	178,445	105,541
Outline of potential shares that had not been included in the calculation of diluted net income per share because they had no dilutive effect, and that had changed significantly since the end of the previous fiscal year	-	-

(Significant Subsequent Events)

Not applicable.