Headwaters

Results of Operations for the Second Quarter of FY2026

Headwaters Co., Ltd.

August 28, 2026 Securities code: 4011

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Headwaters

01 The History of Headwaters

About Us (As of the end of June 2026)

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	396 million yen
Number of employees	637 (all group companies, excluding contract and part-time employees)

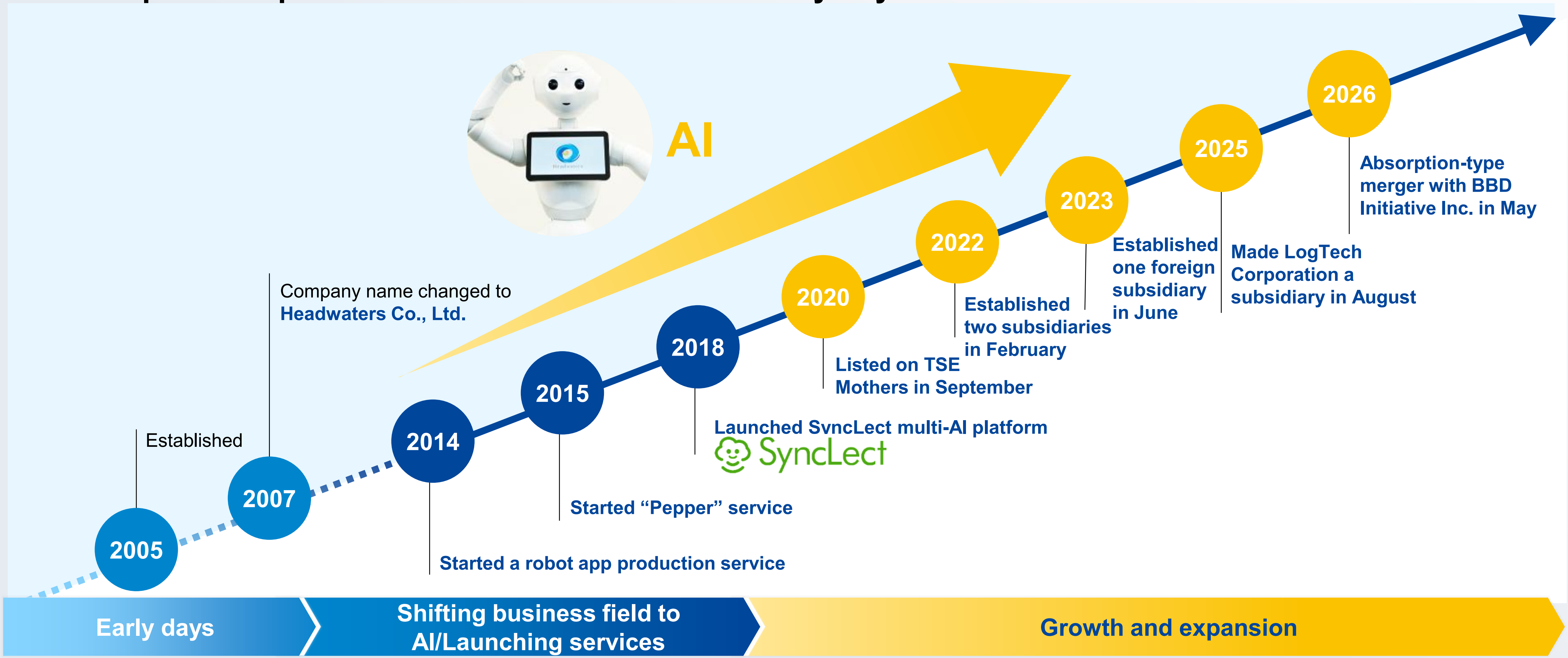
Becoming the center of industry, headwaters.

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.



Our Business

The AI Platform Business is divided into three segments

AI Platform Business

Enterprise AI Solutions

- Role: Supporting the introduction of leading-edge AI technologies at companies
- Target customers: Large corporations, global companies
- Value proposition: Establish a competitive advantage through the latest technologies

Assistance for large corporations and global companies to begin using advanced AI technologies to become even more competitive

AI Workflow Engineering

- Role: Optimizing business processes using AI
- Target customers: Industry-specific companies, upper-medium-size companies
- Value proposition: On-site DX implementation through X-Tech FDE

Use of AI to optimize the business processes in industry-specific companies and upper-medium-size companies; digital transformation of core business operations

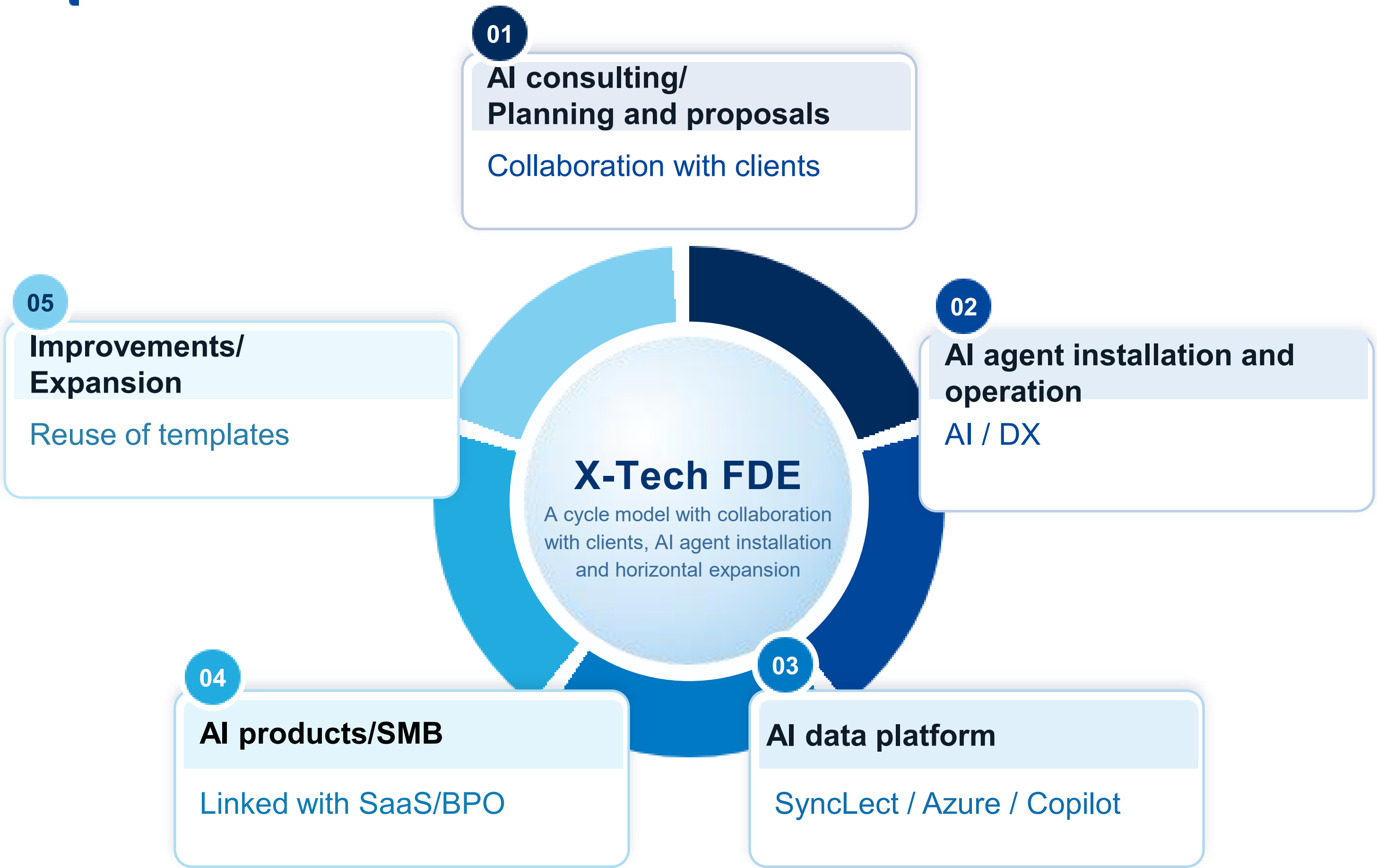
DATA & AI Engine

- Role: Establishing reusable AI platforms
- Target customers: All customers (cross-segment platform)
- Value proposition: Ongoing value creation and cost optimization

Constant value creation and cost optimization as a reusable AI platform that encompasses all of a company's customers

Business Model

A powerful AI platform backed by a cycle of Client needs x Product creation x Horizontal expansion



01 Client collaboration using X-Tech FDE
Identify needs
Planning/proposals based on new technologies and knowhow

02 Installation/operation of AI agents
AI-driven development and other uses of new technologies
Volume production of AI agents with updates including peripheral systems

03 AI data platform
Establishment and provision of platforms as the base for AI agents and business data

04 Upgrade SaaS to AI products/Use at small and midsize companies
Incorporate in AI products the expertise acquired from activities 01 to 03

05 Improvements and expansion
Use the AI products in 04 in the X-Tech FDE of 01
Use AI agents with proven effectiveness at large companies in AI products too

Overview of X-Tech FDE (Forward Deployed Engineering)

Headwaters

An organization and delivery model for the leading-edge integration of technologies, core work processes and businesses accompanied by the practical use of AI

X-Tech

CROSS-TECHNOLOGY

Provides value that combines many technologies

Agentic AI
Autonomous execution of tasks

Products / Solutions
AI embedded in current products

Business data
Business data and internal knowledge

Industry knowledge
Through understanding of individual domains

+

FDE

FORWARD DEPLOYED ENGINEERING

Front-line engineers – As a partner rather than simply a vendor

Helps build partnerships
Working side-by-side with customers rather than from distant locations

An understanding of many business processes
Operations / data / culture / IT systems

Key roles in front-line engineering
Fully integrated support at clients' workplaces for designs and the installation and use of new technologies and products

A unique Headwaters model

X-Tech + FDE = X-Tech FDE model

Goes beyond proof of concept
Trial use of AI as well as support to make AI an essential component of business processes

Reusable knowledge and a template
Use the accumulation of assets to speed up deliveries

Updates that originate in workplaces
A continuous improvement look that targets the actual needs of people who perform core business tasks

What Makes Headwaters Different

Headwaters

Much experience and DX expertise since the emergence of the AI/robotics market and a fully integrated collaborative business model. The result is a competitive cost structure, speed, innovative business proposals and other strengths. Furthermore, Headwaters has the skills to determine **the best fit for advanced technologies in the operations of client companies**.

	Processes	Technologies	Applications	Speed
Consulting companies	Only consulting	Other than development	Mostly large projects	Ordinary
Major system integrators	Only system development	Relies on partner companies	Medium- to large-scale projects	Slow
AI engine developers	Only AI development	Mainly AI expertise	Small- to medium-scale projects	Fast
Headwaters	Integrated from consulting to collaborative development	Broad expertise (AI, DX)	Medium- to large-scale projects	Fast

Business and technology consultants | Proof of concept analysis | Request for proposal studies | Design | Development | Operation

Consulting | Development | OPS

Differentiation Due to a Model Ideal for Japan and To Unmatched Strengths

Headwaters

Service for using a platform type AI x Business ontology designs
ー Building a Japanese version of the global standard FDE model for use in corporate operating systemsー

A model proven worldwide

The Global Standard Model

◇ Data integration platform products

◇ Reliance on the very small number of elite FDE personnel

◇ The premise is a model for operating the global standard

EVOLVE

The Headwaters Model, structured for Japan

Service for using a platform type AI

◆ Provided as a service with development support (FDE)

◆ The best possible team composition – No reliance on key individuals

◆ Design and apply at the ontology layer the highly complex and distinctive business processes that exist only in Japan

Critical points that differentiate Headwaters

01 FDE bottlenecks

Elimination of FDE bottlenecks

Problem

Excessive reliance on star FDEs creates personnel bottlenecks

The Headwaters solution

Teams spanning many categories (Data scientists x Business consultants x BPO)

Outcome:

No reliance on key individuals — Elimination of FDE bottlenecks

02 Best possible ontology design for every company

Establishment of business ontology

The Headwaters solution

Combination of the unique Japanese decision-making process and tacit knowledge

Design concept

Expand and reinforce the unique strengths of individual companies rather than use standardization

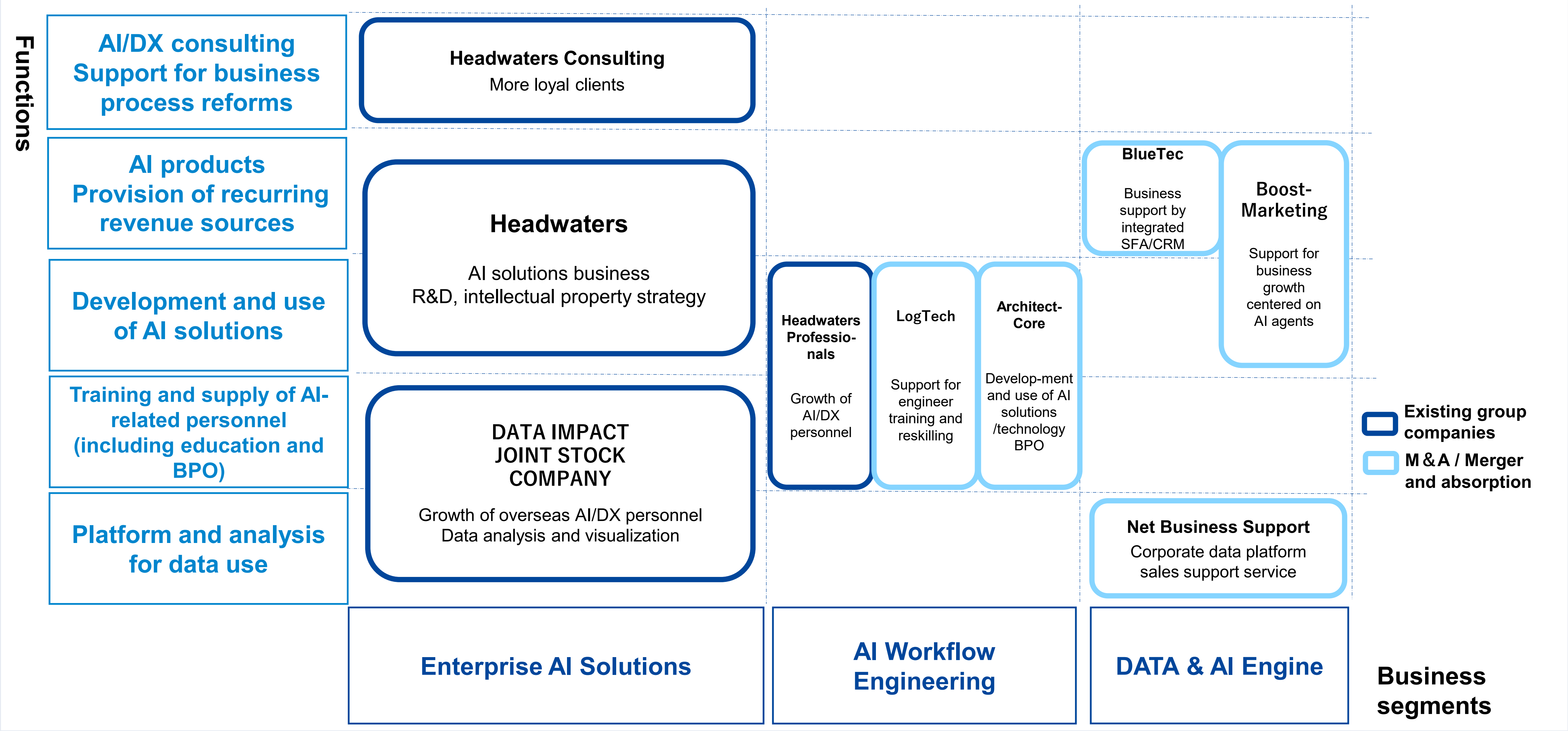
Outcome:

Innovation for decisions and operations of companies by using AI

Business Portfolio (Functions and Business Segments)

Headwaters

The business portfolio after the merger and roles of businesses from the standpoints of business segments and functions



Market Environment

Approachable AI market categories

Services for companies of all sizes — The entire market is an opportunity

Size of approachable market (Japanese generative AI market)

1,450 billion yen
(2026)

Large company market
Approx. 460 billion yen (estimated)
AI utilization policy establishment rate: Over 50%

Large company segment (Annual sales of 1 trillion yen or higher)

- ✓ Accelerating AI utilization
- ✓ AI utilization policy establishment rate of over 50%
- ✓ Large budgets for using AI and outstanding execution skills
- ✓ Able to leverage current strengths

Mid-tier and SME market
Approx. 990 billion yen (estimated)
AI utilization policy non-establishment rate: Approx. 50%

Mid-tier and SME segment (Annual sales of less than 1 trillion yen)

- ✓ AI utilization policy non-establishment rate: 50%
- ✓ Extremely high support needs
- ✓ Lack of digital personnel and expertise
- ✓ Enormous new market opportunities

Growth potential of the entire market

Japan's AI market

2026
1,450 billion yen
↓
2034
8,950 billion yen

Average annual growth rate
25.5%
(2026-2034)

Global AI market

2026
58,200 billion yen

in 2026 AI expenditures (forecast)
387 trillion yen

Capture growth in global markets to achieve sustainable and long-term growth

Source: Fortune Business Insights (2025); Japan's Generative AI Market / Artificial Intelligence Market, Gartner (2025)

Outstanding Reputation as an Alliance Partner

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

10 Headwaters engineers received a 2026 Microsoft Top Partner Engineer Award

Microsoft Advanced Specialization in two categories: AI Platform and Agentic DevOps

Alliance Strategy

Multiple Alliances

The goal is to use many alliances to maximize the value of all alliances

(1) Product Alliances

Microsoft/Sony/NVIDIA, etc.

- Common platform: Azure/Copilot/GitHub/ Databricks
- Joint sales, joint marketing and joint development
- Quickly obtain information and start activities involving leading-edge technologies
- Joint activities for attracting customers to create value

×

(2) Industry Alliances

Fujitsu, Daiwa Securities, JR West , ITOCHU, etc.

- Partnerships with large companies and system integrators
- Jointly establish sources of competitive superiority
- Capture projects that Headwaters could not receive on its own

X-Tech FDE goes beyond mere partnerships to enable co-creation as a value creation partner

02 Highlights of FY2026 1H

FY2026 1H Consolidated Financial Results Overview

(Thousand yen) (Thousand yen)

	FY2025 1H Results		FY2026 1H Results			
		Pct. to net sales (%)		Pct. to net sales (%)	YoY change (%)	Full-year forecast achievement rate (%)
Net sales	1,637,995	100.0	3,351,490	100.0	204.6	39.2%
Enterprise AI Solutions	1,584,251	-	2,366,740	-	149.4	43.1%
AI Workflow Engineering	196,582	-	863,862	-	439.4	32.8%
DATA & AI Engine	-	-	341,798	-	-	25.2%
Inter-segment sales	(142,838)	-	(220,910)	-	-	-
Operating profit (loss)	(22,038)	-	271,799	8.1	-	36.0%
Ordinary profit (loss)	(73,168)	-	129,600	3.9	-	20.9%
Profit (loss) attributable to owners of parent	(37,311)	-	(191,987)	-	-	-
Basic earnings (loss) per share	(9.83) yen		(41.66) yen			

*Sales of BBD Initiative Inc. are recorded under the DATA & AI Engine and AI Workflow Engineering segments from the 2Q due to an absorption-type merger with this company on May 1, 2026.

(Reference) Inter-segment sales (thousand yen): Enterprise AI Solutions 39,522 / AI Workflow Engineering 181,388 / DATA & AI Engine 456 (eliminated on consolidation)

Financial Summary

Headwaters

Net Sales

3,351 million yen

- YoY change: +104.6%
- Vs. annual plan: 39.2%

All-time High

FY2026 Key Performance Indicators: **Sales, Operating profit and Recruiting**

Accomplishments

✓ We **achieved record high sales (up 104.6% YoY)** for the fifth consecutive quarter by fully tapping into demand for AI

→ First half sales were 39.2% of the 2026 sales plan as **sales were generally as planned in all business segments.** The outlook is for growth to speed up in the third and fourth quarters. One reason is the high pct. of sales from product and service one-time sales in relation to recurring revenue. In addition, businesses are structured for the growth of second half output capacity as the workforce expands and PMI produces benefits as the number of projects increases.

→ Enterprise AI Solutions: The size and monetary value of projects are increasing as growth continues, backed by increasing AI agent demand, and expansion of domains where current clients are using AI, and progress with operations throughout Headwaters. (**First half sales were 43.1% of the 2026 plan**)

→ AI Workflow Engineering: Big increase in sales due to increasing demand for AI-driven development and the BBD Initiative merger. (**First half sales were 32.8% of the 2026 plan**)

→ DATA & AI Engine: BBD Initiative (May 2026 merger) is included in consolidated sales beginning with the second quarter of 2026. Results are as planned, mainly for sales from recurring sources. **First half sales were 25.2% of the post-merger 2026 plan (May-December).**

Financial Summary

Operating Profit **271** million yen

Ordinary Profit **129** million yen

Accomplishments

- ✓ Gross profit: **Record high quarterly gross profit** in the second quarter (937 million yen / Gross profit margin 44.9%)
- ✓ Operating profit/Ordinary profit: A loss one year earlier because of upfront investments for growth. In FY2026, the profitability of existing businesses improved as AI-driven development raised productivity and unit sales per project increased. The BBD Initiative merger also contributed to earnings. As a result, operating profit was 271,799 thousand yen compared with a 22,038 thousand yen loss one year earlier and ordinary profit improved from a 73,168 thousand yen loss to a 129,600 thousand yen profit. Both are **new records for the first half of a year**.
- ✓ Native AI progress: Use of AI-driven development is increasing as Headwaters builds a platform for higher productivity and profitability in the second half of 2026.

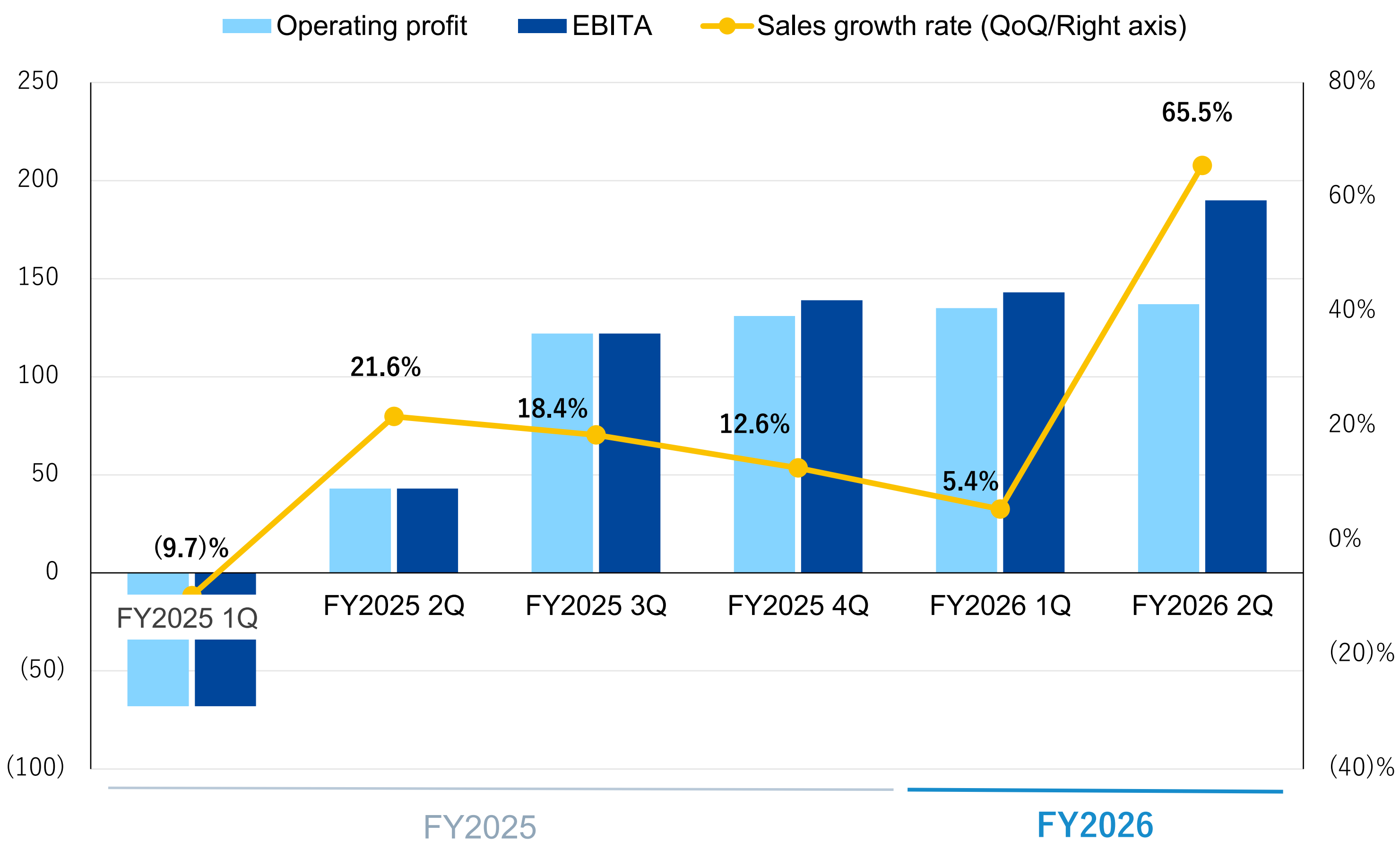
One-time expenses due to the BBD Initiative merger

- ✓ SG&A expenses: Increased because of higher personnel expenses and amortization of goodwill resulting from the BBD Initiative merger (up 115.1% YoY)
- ✓ Extraordinary losses/Non-operating expenses: Recorded a loss on step acquisitions of 207 million yen due to the BBD Initiative merger (extraordinary loss), share of loss of entities accounted for using equity method of 79 million yen and interest expenses of 21 million yen (non-operating expenses) (all are one-time items)

Financial Summary (Business Growth and Higher Earnings)

Headwaters

FY2025 1Q – FY2026 2Q (Results)　Million yen / Right axis: Sales growth rate (QoQ; %)



EBITA = Operating profit+ Goodwill/PPA intangible asset amortization

FY2026 1H Operating profit

271 million yen

A profit following the 22 million yen loss in FY2025 1H

Sales growth rate (FY2026 2Q/ QoQ)

+65.5%

First inclusion of BBD Initiative made a big contribution to growth

FY2026 1H EBITA

333 million yen

An indicator of business profitability after excluding M&A expenses

Highlights

Sales, operating profit and EBITA continue to increase. Profitability declined briefly because of amortization expenses associated with the BBD Initiative merger. Currently focusing on using BBD integration benefits to raise profitability.

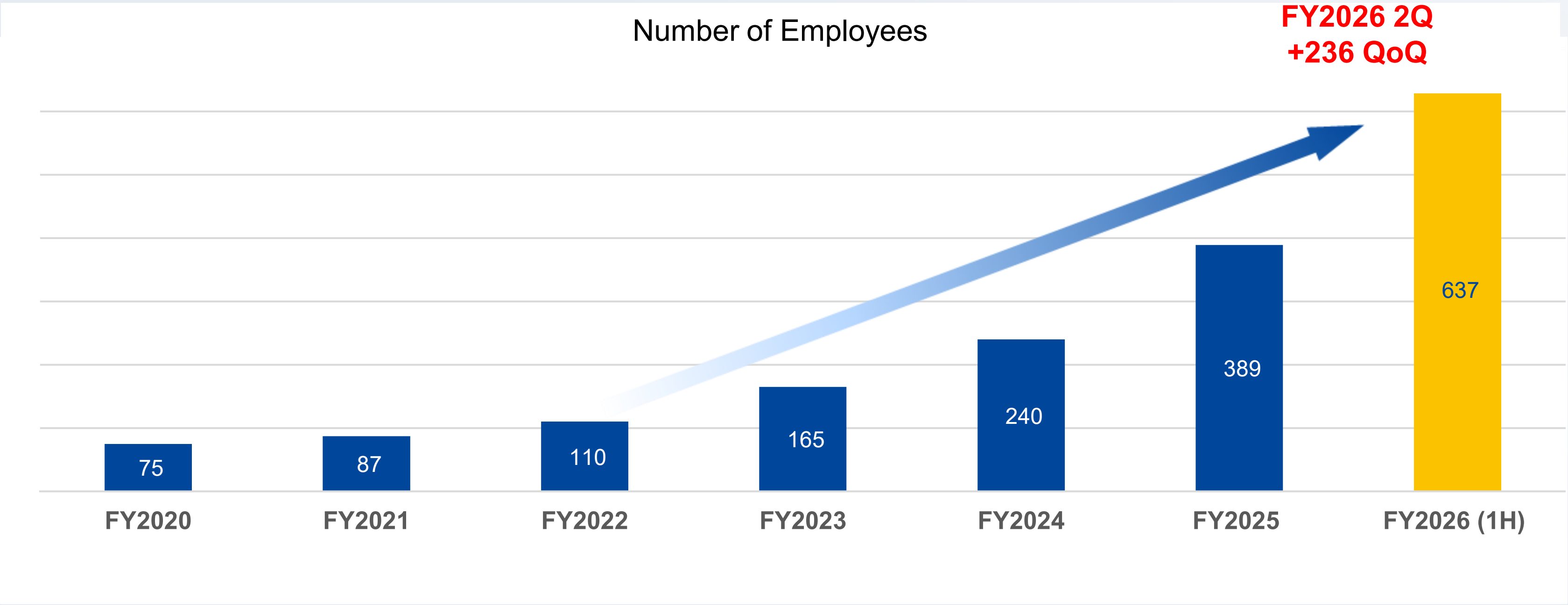
Headwaters

Recruiting

Total number of employees: 637

FY2026 2Q Accomplishments

- Headcount includes the employees of BBD Initiative following the May 2026 merger.
- A **net increase of 236 employees** QoQ including BBD Initiative employees
- Total workforce increased to **637**.



Number of employees (1H)

637

*Excluding contract and part-time employees

Our Trusted Clients & Alliance Partners

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

Finance/Insurance
- Sumitomo Mitsui Banking Corporation
- Resona Holdings, Inc. *
- Seven Bank, Ltd.
- Daiwa Securities Group Inc.
- Daiwa Institute of Research Ltd. *
- The Dai-ichi Life Insurance Company, Limited
- Meiji Yasuda Life Insurance Company
- DAIDO LIFE INSURANCE COMPANY
- Prudential Life Insurance Co., Ltd.
- Tokio Marine dR Co., Ltd.
- SOMPO Digital Ventures Co., Ltd.
- Mizuho Leasing Company, Limited *

Manufacturing/Machinery/ Semiconductor
- Sony Group Corporation
- Panasonic Connect Co., Ltd.
- Fujitsu Limited
- Tokyo Electron Limited
- ROHM Co., Ltd.
- Mitsubishi Materials Corporation
- Hitachi Construction Machinery Co., Ltd.
- Kubota Corporation
- Sumitomo Construction Machinery Co., Ltd.
- TOPPAN Holdings Inc. *
- Oki Electric Industry Co., Ltd. *
- Pioneer Corporation *

Transportation/Mobility
- East Japan Railway Company *
- West Japan Railway Company
- Japan Airlines Co., Ltd.
- Toyota Tsusho Corporation
- TOYOTA MOTOR KYUSHU INC. *
- AERO TOYOTA CORPORATION *
- TOYOTA MAPMASTER INCORPORATED *
- DENSO CORPORATION. *
- DENSO TEN Limited
- Nissan Motor Co., Ltd.
- Kawasaki Heavy Industries, Ltd.
- Yazaki Corporation *
- Panasonic Automotive Systems Co., Ltd. *
- BRIDGESTONE CORPORATION *
- Keio Corporation
- Hankyu Corporation

Energy/Chemical
- Idemitsu Kosan Co.,Ltd.
- The Kansai Electric Power Company, Incorporated
- Electric Power Development Co.,Ltd. *
- J-POWER Business Service Co., Ltd. *
- INPEX CORPORATION *
- Mitsubishi Chemical Corporation
- Mitsubishi Chemical Research Corporation
- FUJIFILM Holdings Corporation
- Metal One Corporation *

Retail/Distribution
- ITOCHU Corporation
- MITSUI & CO., LTD.
- JP DIGITAL Co., Ltd. (Japan Post Group) *
- YAMATO TRANSPORT CO., LTD. *
- Seven-Eleven Japan Co., Ltd.
- Lawson, Inc.
- NITORI Co., Ltd.
- Takashimaya Company, Limited
- BIC CAMERA INC.

Consumer goods/Food/Beverage
- Suntory Holdings Limited
- NISSIN FOODS HOLDINGS CO.,LTD.
- Nisshin Flour Milling Inc.
- Astellas Pharma Inc. *
- Asahi Kasei Corp.
- Lion Corporation
- ITO EN, LTD.
- Sapporo Holdings Limited
- YKK CORPORATION
- MIZUNO CORPORATION *
- OKAMURA CORPORATION *

Government/Public Sector
- Ministry of Economy, Trade and Industry
- GovTechTokyo *
- Tokyo Metropolitan Government Bureau of Environment
- National Institute of Information and Communications Technology
- National Agriculture and Food Research Organization
- Waseda University
- Kobe University

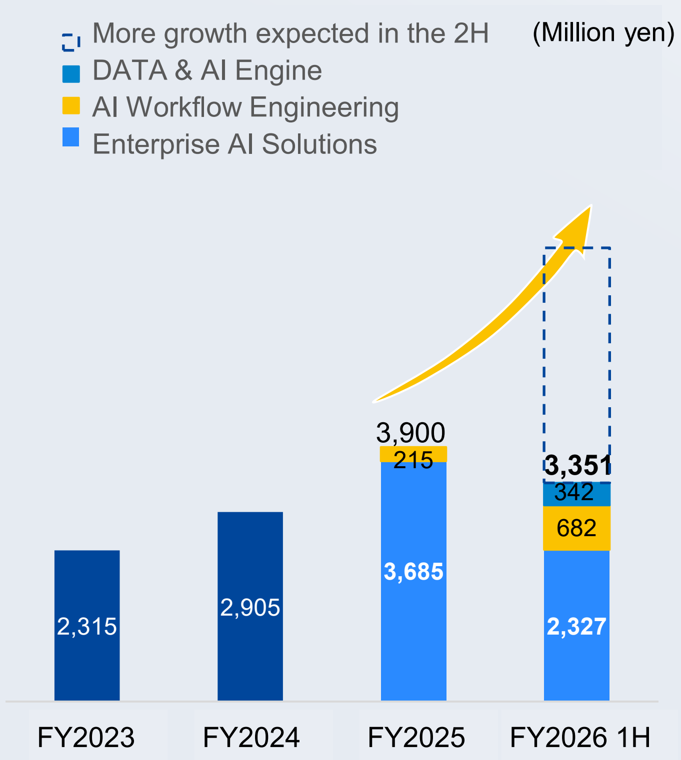
Real Estate/Construction
- Mitsui Fudosan Co., Ltd.
- SHIMIZU CORPORATION
- TAISEI CORPORATION
- DAIWA HOUSE INDUSTRY CO., LTD.
- JDC Corporation

Communication/Entertainment
- Apple Inc.
- SoftBank Corp.
- SoftBank Robotics Corp.
- NTT EAST, Inc.
- Cisco Systems G.K.
- Konami Digital Entertainment Co., Ltd. *

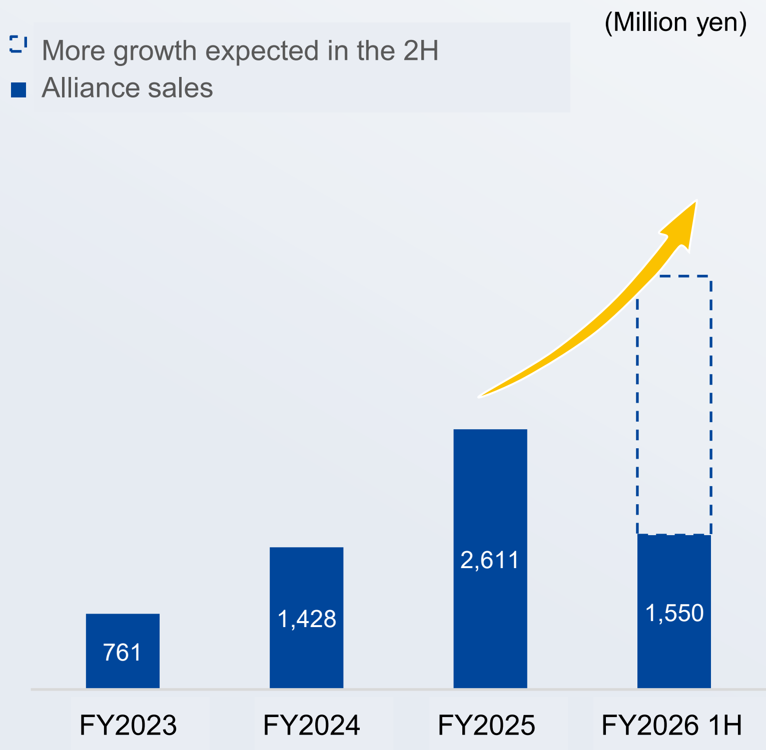
(In no particular order; an asterisk denotes a new client acquired within the past year.) / List does not include every new client.

KPI

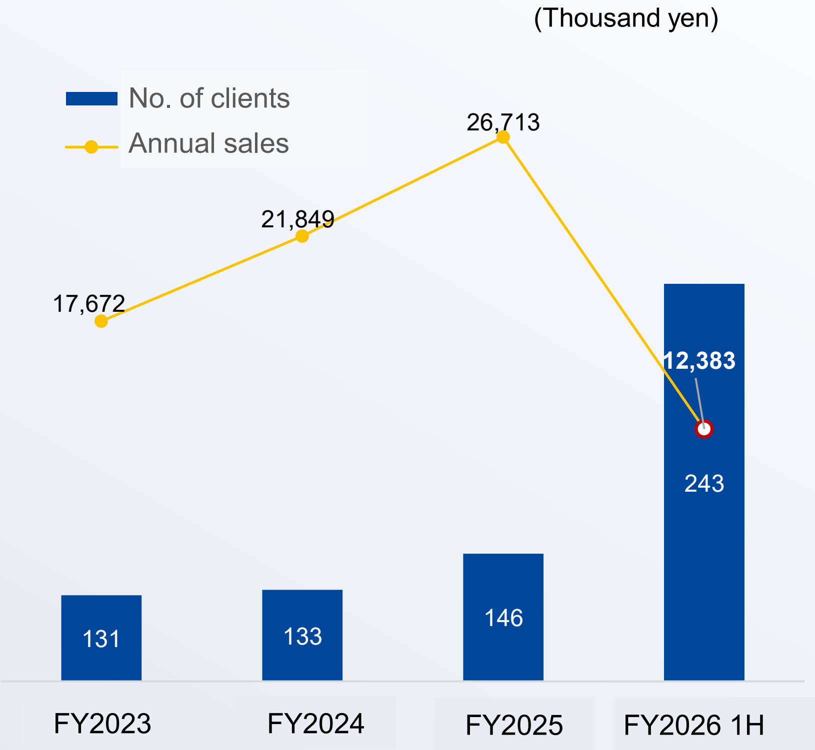
Net Sales by Service Category



Alliance Strategy-Related Sales



Annual Sales per Client



*The number of clients and annual sales per client are calculated by using product and service one-time sales contracts in the Enterprise AI Solutions and AI Workflow Engineering segments (total of 3,009 million yen). In FY2026 1H, the number of clients increased because of the BBD Initiative merger on May 1. (1H results; 2026 sales are a reference figure).

Short-term and Medium/Long-term Strategies for Growth

Short term

AI agents
AI-driven development

Many companies are starting to use generative AI. Aiming for growth by targeting demand for AI agents and AI-driven development.

Post-merger integration

The goal is more cross-selling and maximizing profit opportunities through the integration of the clients, human resources and technologies of all group companies.

Use external resources

Strengthen joint activities with Microsoft and other strategic partners to create large projects and reinforce the framework for providing services.

(Reference: KPI)
Net Sales by Service Category

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

Medium/Long Term

More sales from recurring sources

Convert AI assets into products and services for the growth of recurring revenue and the establishment of a stable base for earnings.

New sources of earnings

Create new opportunities to earn profits by using R&D involving new technologies, a model for the use of Data & AI assets, and the use of AI for labor.

(Reference: KPI)
Net Sales by Segment

03

Strategic Goals (Progress with AI Agent Activities)

FY2026 1H Business Relationships

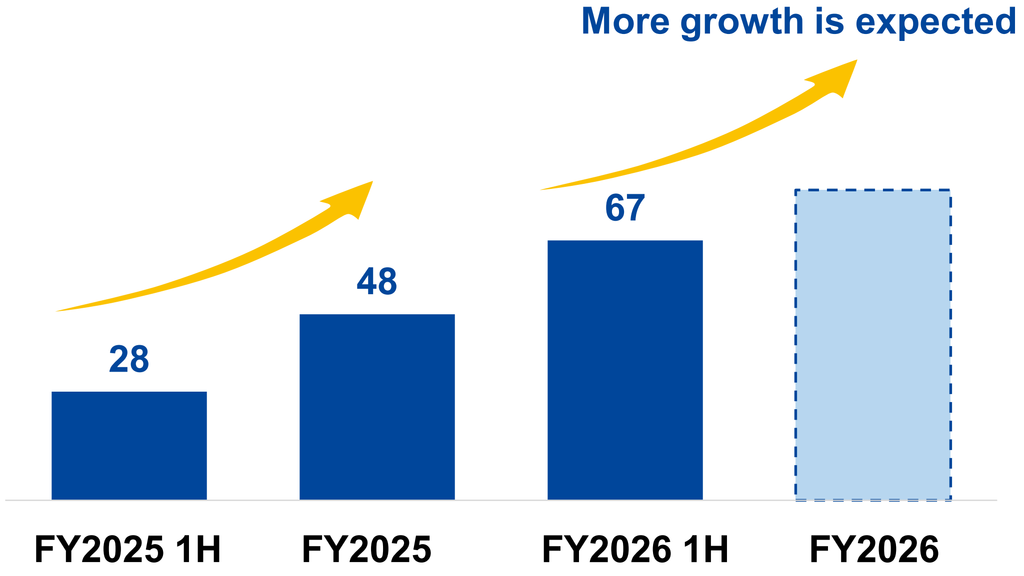
Business portfolio

Companies with annual sales over 1 trillion yen on a consolidated basis

67

*Excluding the number of group companies of clients

Number of companies with annual sales of more than 1 trillion yen



- 67 client companies have annual sales of more than 1 trillion yen due to the BBD Initiative merger (including sales of their group companies)
- Increasing number of client companies with annual sales of more than 1 trillion yen in Japan; more loyal clients by developing new businesses for clients
- Expect more new clients, mainly large companies, and market expansion

*Number of companies with annual sales of more than 1 trillion yen is based on consolidated sales and does not include their group companies.

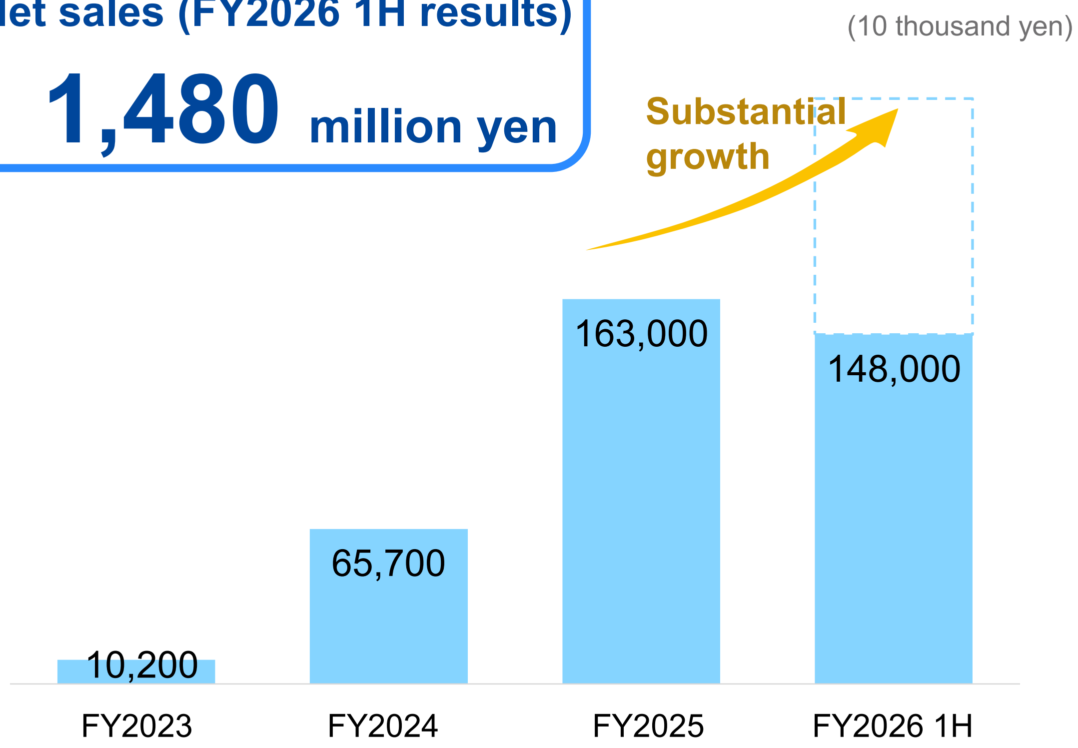
AI Agent (Performance and Outlook)

- Headwaters sales in the generative AI / AI agent category are climbing as the entire AI agent market grows.
- In FY2026 1H, generative AI sales were about 1,480 million yen, which is almost as much as sales of 1,630 million yen in FY2025.

AI Agent Sales

Net sales (FY2026 1H results)

1,480 million yen



Outlook for the AI Market

- Advance from AI use to outcome creation
  → Shift from primarily PoC to full-scale AI operation and utilization throughout the company
  → More AI use directly linked with business performance and management issues
- Advance from AI agents to Agentic AI
  → Move from business process support to AI with autonomous operations
  → Use multiple AI for joint activities and business operations
- Data is becoming the key to competing successfully
  → Increasing value of a company's own data and its business knowledge
  → Growing demand for building data platforms and accumulating knowledge
- Growth of physical AI and robotics
  → AI use is extending to front-line operations and the real world
  → Widespread use of AI in the manufacturing, logistics and mobility sectors
- Conversion to an AI native company
  → An era when AI is the premise for the design of all new systems
  → Transition to business operations and management models centered on AI

Issues

Energy efficiency, cost of inferences, reliability, privacy, ability to provide explanations, intellectual property rights, data sovereignty, AI governance, and others

Daiwa Securities Group

More collaboration with the Daiwa Securities Group

— AI operator → App development → DX support → Faster creation of a loyal client

Customer experience (CX) innovation

Daiwa Securities AI Operator

AI agent created a new customer experience

- The first conversational AI operator at a Japanese financial institution
- Real time responses for stock prices, NISA, and other procedures
- Multi-agent structure automates even complex tasks
- Higher quality and broader range of support for customers as the number of NISA increases

▲「生成AIとDXの最前線」のヘッドウォータース発表資料より

New business

Daiwa Lens Beta Version

- Displays stock information for company linked to a photo (GPT-4o mini)
- Development under way for use as a financial and economics education program
- Encompasses the Daiwa Securities Group headquarters, QUICK and Headwaters

DX training

Copilot Studio Hands-on training

- More than 400 Daiwa Securities Group employees have participated
- A place to learn AI agent development and operation skills
- Linked with DX progress in the "Passion for the Best 2026" medium-term plan

Actions for creating a loyal client

- CX innovation (AI operator) → New business co-creation (Daiwa Lens) → DX training (Copilot Studio WS) collaboration domain expansion
- Headwaters is assisting with the use of multiple AI agents, using the Daiwa Securities Group and Microsoft Japan strategic partnership

Daiichi Life Insurance – AI-OCR Modernization

Headwaters

AI-OCR platform update, unstructured data processing automation, and more efficient work flow for manual tasks
— Advanced AI-OCR platform → Azure AI+OpenAI → Human-in-the-Loop → Full release in about one year

Operating cost down about **50%**	Recognition accuracy up **20%**	**About one year** from design to launch

Background and issues

Due to the end of support (EOS) for the current AI-OCR platform, the decision was made to start using a cloud AI-OCR platform. The goals were scalability and continuous efficiency.

✓ The main issues were the need for the more efficient use of expenses and the structuring of data.

Main activities

- ✓ In 2020, started building a platform for the automation of insurance benefit payments and other procedures.
- ✓ Used a partnership with Daiichi Life Techno Cross to design and develop an AI-OCR platform that uses Azure AI for the highly accurate analysis of unstructured data.
- ✓ Established an AI-OCR platform with outstanding accuracy and suitability for actual business processes by using Human-in-the-Loop, which combines AI processing and a review by a person.
- ✓ Integrated elemental technologies and started use as a platform, completing all steps from the design to the release in only about one year.

Architecture of the AI-OCR System

Step 01	Step 02	Step 03	Step 04
Acquire image Form data input/ Preliminary processing	Document recognition Azure Document Intelligence	Text recognition Azure OpenAI	Data integration

Human-in-the-Loop
✓ Review by AI and people for decisions with high precision

✓ Automation/structuring of unstructured data

✓ Highly advanced work flows

Outlook

Activities will be expanded to new categories of AI-OCR and to business processes with embedded AI. Progress is expected to enable using data at an even higher level and constantly improve business processes.

Essential points for AI-OCR modernization
✓ Update the AI-OCR platform | ✓ Azure AI + OpenAI | ✓ Human-in-the-Loop | ✓ Full release in about one year

SyncLect Data Intelligence

Headwaters

Unique engine for conversion of a company's unused tacit knowledge into structured data that can be used by AI – Allows the use of an L3 autonomous AI agent
— Extraction of tacit knowledge → Business ontology generation → Knowledge assets that AI can use → Agentic work flow for actual use

AI knowledge structuring engine

SyncLect Data Intelligence

Start using an autonomous engine by converting tacit knowledge into AI-compatible structured data

- ✓ Expert interview agent: Autonomous extraction by AI of veteran employee decision standards, measures to deal with exceptions, and role logic
- ✓ Business process automation agent: Use business conversations for structuring roles, conditions, events and relationships
- ✓ Output of structured data that AI can use – Ties with Microsoft Fabric, Foundry and Work IQ
- ✓ Industry-specific solutions for the financial, manufacturing and mobility sectors – Started an early adapter program

AI automation level – Use SyncLect for rapid advance to L3

L1	L2	L3	L4
Chat / Q&A	Partial automation	Completion of tasks	Complete automation

Three solutions created for specific industries

01 Financial services

- ✓ Structuring of knowhow of regulatory rules, decisions about exceptions, and sales activities for ontology that can be read by AI
- ✓ L3 Agentic work flow for the back office and CC

02 Manufacturing

- ✓ Digitalization for passing on expertise about quality control, equipment maintenance and skills of experienced engineers
- ✓ Decision patterns of engineers directly linked to AI agent

03 Mobility

- ✓ Conversion of vehicle use logic and incident responses to AI-compatible ontology
- ✓ Assistance for automation of inspections, monitoring and customer interaction processes

- ✓ X-Tech FDE + SyncLect Data Intelligence: Tacit knowledge extraction → Business context structuring → AI design → End-to-end support covering from full implementation to tuning
- ✓ Microsoft Fabric / Foundry / Work IQ linkage – Started an early adapter program in the financial, manufacturing and mobility sectors

Headwaters

Demonstration trials for confirmations: AI-driven development raises individual engineer productivity by five to 10 times

— Standardization → AI investment → Employee training → Nonlinear growth model

AI engineering OS

SAIDDar

A development standard used by an AI agent for an entire organization

- ✓ End-to-end support, from proposals for an ISSI recognition global AI development framework to testing
- ✓ Agentic DevOps: Methods proven at client projects can be used internally too
- ✓ Eliminate reliance on skills of individuals → High quality that can be repeated throughout an organization
- ✓ GitHub Copilot / Claude Cowork / Copilot Cowork linkage

AS-IS (Now)		TO-BE (with SAIDDar)	
Period	12 to 18 months	Period	6 months
Team	10 to 15 engineers	Team	Four engineers
Scale	Standard development cycle	Scale	77 images, E2E

Three components that support company-wide AI development

01 Standardization

An AI development process that can be repeated

- ✓ Standardized template for each phase and a prompt library
- ✓ Consistent quality throughout an organization by eliminating reliance on different capabilities of individuals

02 AI investments

Claude/GitHub Copilot tool chain

- ✓ Continuous license and infrastructure investments

03 Training programs

Knowledge and flywheel

- ✓ Hands-on training for all engineers
- ✓ Feedback to SAIDDar of knowledge acquired at every project

- ✓ Benefit: 2-3 times faster x 2/3 smaller team = 5-10 times higher productivity per engineer; Actual project: 77 image system required six months with a team of four engineers
- ✓ Expansion: Headwaters → Group companies → Alliance partners → Client companies

Company OS — 6 Layers × Project Map

Headwaters

What is a company OS? A management brain that is constantly learning for the purpose of using AI for autonomous decisions and strategy determination and implementation

Layers	Roles and purposes	Projects	Current strengths and gaps
LAYER 6 Purpose	**Reason for existence, mission and vision** Key guidelines for all decisions	▶ Concept under development **OS concept for corporate evolution** Support for purpose/mission designs	★☆☆☆☆ ▲Gap: No top-level design skills
LAYER 5 Strategy	**Design of goals, winning formula, allocation of investments** Establish a competitive edge	▶ Under development **Management dashboard** Management simulations	★☆☆☆☆ ▲ Gap: Decision-making platform is under development
LAYER 4 Governance	**Provision of a framework for rules, authority and audits** Safe, large-scale use of AI	● Demonstration trial under way **Project for a large financial services group** Financial AI governance	★★★☆☆ ◆Strength: Key to differentiation in a regulated industry
LAYER 3 Agent	**Autonomous decisions, planning, implementation and corrections by AI** An implementation engine that creates value	● Operational **Agent Delivery OS** Sales/manufacturing agent	★★★★☆ ◆Strength: A core platform currently used in many industries
LAYER 2 Knowledge/ Ontology	**Structuring of business knowledge, rules and decision standards** A format that AI can understand and use	● Being implemented **Major bank: Business process structuring project** Structuring administrative process data	★★★★☆ ◆Strength: Outstanding structuring capabilities by using assets other companies do not have
LAYER 1 Records	**Accurate recording of facts and events** The sole source of reliable information	● Operational **Linkage with customers' core IT systems** M365/Integrated platform	★★★★★ ◆Strength: Current skill for working with others and implementation experience

THE LOOP The corporate OS value cycle

LAYER 1 Record → LAYER 2 Structure → LAYER 3 Implement → LAYER 4 Control → LAYER 5 Strategy → LAYER 6 Return to purpose — LOOP

Current strengths

- Knowledge structuring (Layer 2) and implementation (Layer 3) expertise
- Much implementation experience in finance, logistics and other difficult industries
- A differentiated market position due to assets competitors cannot match

Domains for strengthening

- Layer 4: Governance framework and standardization
- Layer 5: Build platform to support strategic decisions
- Layer 6: Reinforce capabilities for supporting purpose designs

Strength ranking

★★★★★	Overwhelming
★★★★☆	Core
★★★☆☆	Partial/Making progress
★☆☆☆☆	Actions are needed

Social Structural Changes Caused by Corporate OS Use

As corporate OS use expands to more industries, the evolution of management is going beyond companies by redefining how decisions are made in society.

Conventional structure of society

Operations managed vertically in individual industries, heavy operations

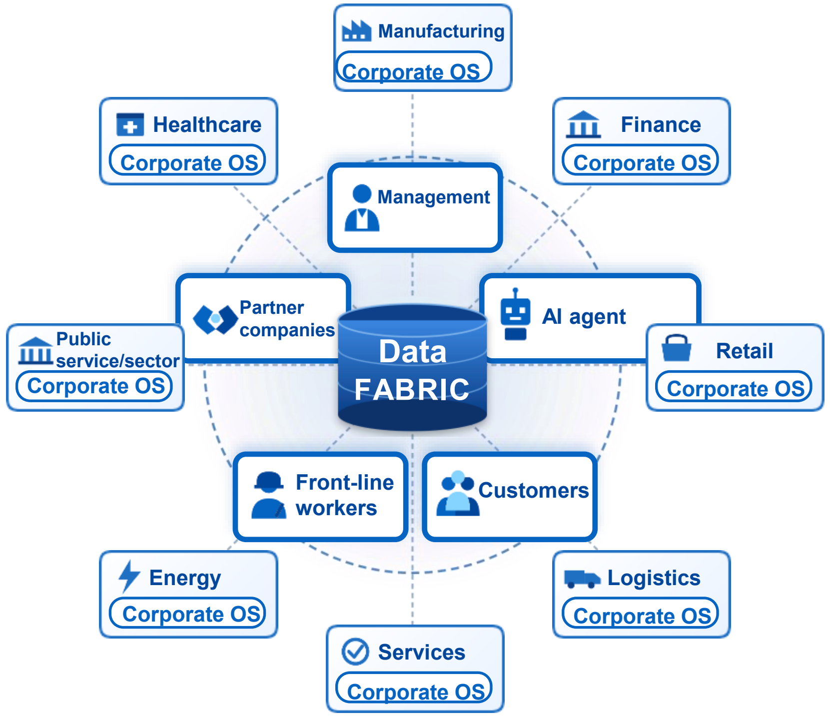
Manufacturing	Finance	Retail	Logistics	Healthcare
◆ Management	◆ Management	◆ Management	◆ Management	◆ Management
◆ Administration	◆ Administration	◆ Administration	◆ Administration	◆ Administration
◆ Coordination	◆ Coordination	◆ Coordination	◆ Coordination	◆ Coordination
◆ Consultation	◆ Consultation	◆ Consultation	◆ Consultation	◆ Consultation
◆ Meeting	◆ Meeting	◆ Meeting	◆ Meeting	◆ Meeting
◆ Manual reports	◆ Manual reports	◆ Manual reports	◆ Manual reports	◆ Manual reports

Separate for each company – Inefficient overall

- Information is dispersed/disconnected
- Slow sharing of information
- Excessive middle office/administrative operations
- Most intellectual labor is used for coordination tasks
- Optimization is only within individual industries

Social transformation

Corporate OS in every industry



Benefits

- ✓ Real-time decisions
- ✓ Expansion of intellectual labor due to AI
- ✓ Big value created by small teams
- ✓ Constant connectivity
- ✓ Overall system optimization
- ✓ Shift to creative work

Heavy structures block innovation and growth

More competitive due to connectivity – Maximum value for society overall

Five social changes

1 Organization
Multiple oversight
→ Small teams with large added value

2 Working styles
Coordination and reports
→ Decisions and creativity

3 Company ties
Point-to-point ties
→ Network of constant connectivity

4 Competition
Labor-saving operations
→ Data x AI x Actions

5 Society
Partial optimization
→ Overall optimization

Profit Structure Transformation

The way that Headwaters earns profits is changing as knowledge becomes assets.

— Asset accumulation → Earnings shift to products → Faster growth not reliant on number of people

01 Accumulation of assets

Joint project knowledge remains in company as “digital employees”

- Tacit knowledge
- Business knowledge
- Data
- Decision logic
- AI model
- Business modules/parts

↓

Digital employees

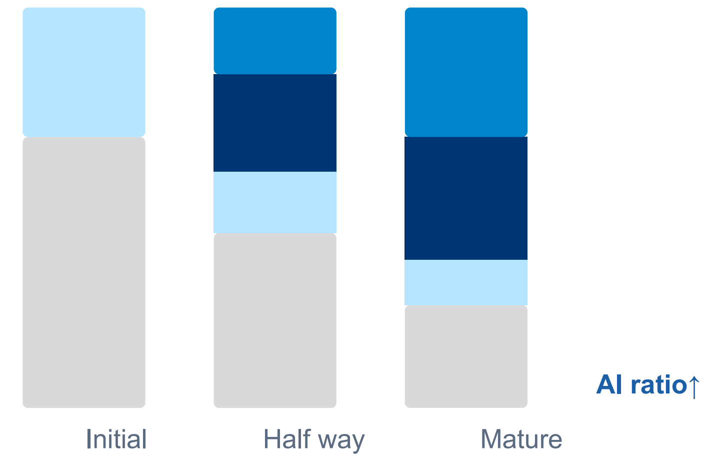
AI WORKFORCE

One-time accomplishments become **joint assets for faster innovation**

02 Change in source of earnings

Employee hours down, internal products are main source of earnings

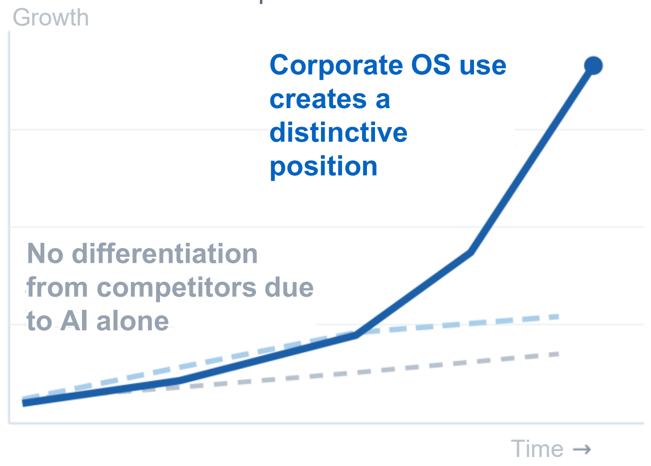
↑ Work/profit composition (approximate)



- Data x Context platform
- Business agent/SaaS
- Ordinary AI (other companies)
- Employee hours

03 Change in speed of growth

No differentiation from only using AI. Use of corporate OS creates a distinctive position



- Before: Growth = People (linear)
- Growth with only AI (No differentiation)
- Future of Headwaters: Corporate OS

Our goals

✓ **No focus on employee hours, prices charged or ARR. The objective is to use corporate OS, which is a new profit structure, for the growth of gross profit and recurring revenue.**

✓ **No focus on system integration, consulting or products. The objective is to become a leader in a new category as Japan’s first company that makes corporate OS an integral part of society.**

Medium/Long-term Growth Plan with a Prime Market Listing Goal

Headwaters

A growth strategy centered on (1) one-stop solutions in the AI/data platform domain, (2) the use of AI-driven development for higher profitability, and (3) investments in our people. The goals are growth much faster than the average expansion of the AI market and a Prime Market listing.

Expansion using business integration

+

Organic business growth

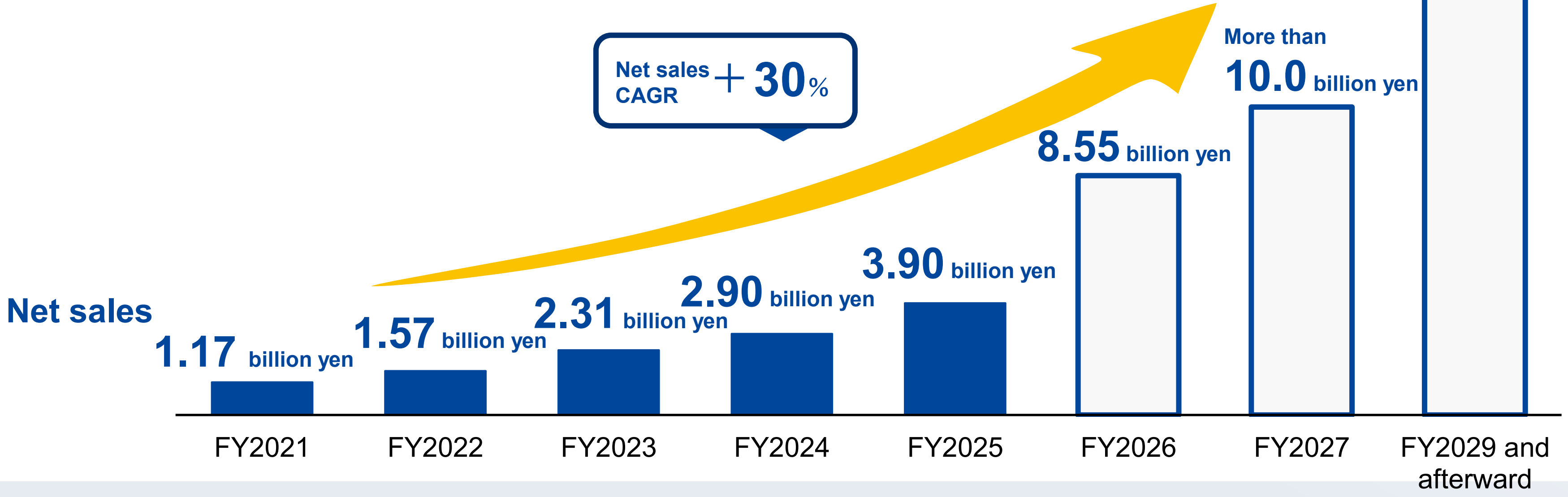
Headwaters

Plan for medium/long-term growth

Expansion using strategic alliances

- Strengthen AI for specific industries; more joint business activities
- More M&A/partnerships for even faster growth
- Use the loyal client strategy to add more clients and develop new businesses for existing clients
- Use joint activities to build a stronger organizational platform (HR and product development)
- 2026: Post-merger integration and business foundation strengthening phase
- 2027-2028: Compliance with Prime Market listing requirements, including for corporate governance

Prime Market

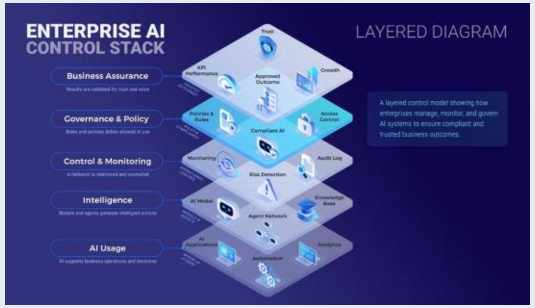


Appendix

FY2026 1H Main Topics (1)

Headwaters

- **Start of AI-driven development for governance that uses Anthropic's Claude – Enterprise level governance allows use in many projects including large ones (March 10)**



- Full-scale launch of AI-driven development that uses Claude from Anthropic. Started use of this development at many projects, including at large companies.
- Has coding support that uses GitHub Copilot and can be used for the automatic production of design and specification documents. Improves the productivity of development work.
- A control environment with access and revision management and audit trails. Provides a multi-model development framework that uses OpenAI and Claude.

- **Headwaters announces SyncLect Data Intelligence, a solution that converts tacit knowledge into structured data that can be utilized by AI – An innovative engine that eliminates the barrier for the use as a full-scale autonomous AI – (March 24)**

- Announced SyncLect Data Intelligence, an innovative engine that converts tacit knowledge hidden in conversations and meeting discussions at companies into structured data compatible with AI.
- The engine encompasses decision standards, treatment of exceptions, the division of roles and other business knowhow, providing support for the establishment of the knowledge platform needed for the widespread use of an AI agent.
- Industry-specific solutions for the finance, manufacturing and mobility sectors speed up the use of AI agents in business operations.

FY2026 1H Main Topics (2)

- **Headwaters uses Remolink of Remote Robotics for physical AI support for control of autonomous robots using voice commands – Designs by AI based on decisions by people make possible collaborative work by people and robots performing autonomous tasks (April 2)**

- Headwaters provides support for more advanced physical AI for the control of robots using voice commands by using Remolink, the remote control platform of Remote Robotics.
- A robot operating model has been created that combines decisions by people with actions based on AI. The result is an operating environment in which people and robots can work together.
- This advance is expected to lead to a next-generation automation solution consisting of an AI agent and robotics. Manufacturers and logistics companies will be the primary users.

- **Headwaters designs and develops a new AI-OCR system using the generative AI for Daiichi Life Insurance Co., Ltd. Data reading accuracy up 20% and operating cost down about 50% (April 28)**

- Headwaters handled the design and development of a new AI-OCR system for the updated AI-OCR platform for Daiichi Life Insurance. Instead of the previous on-premises environment, the new system uses Azure OpenAI and Azure Document Intelligence for cloud-based operations.
- Generative AI technology raises document and text recognition accuracy more than 20% for license and other identification documents and business forms. Furthermore, the operating cost of the new system is 50% less.
- Headwaters has established a Human-in-the-Loop workflow that combines AI-driven automated processing with human verification, achieving a practical operational platform that supports high-precision and large-scale processing.
- Knowledge acquired from this project will be used to continue expanding the use of AI to more life and nonlife insurance companies, banks, securities companies, and other financial service companies.

FY2026 1H Main Topics (3)

- **The SAIDDar AI engineering OS of Headwaters uses AI-driven development for organizational standards rather than reliance on individual decisions – Uses the organizational skills of Copilot Cowork/Claude Cowork and uses GitHub Copilot for the automation of every step from standard designs to AI coding – (June 16)**

- Headwaters offers SAIDDar, an AI engineering OS that can be operated by AI agents, for the organization of proposals, design, implementation and testing knowhow acquired at AI development projects.

- Standardization and automation of activities from the definition of requirements to coding, reviews and testing are possible due to the use of GitHub Copilot and Claude.

- Shifting AI-driven development from people to organizational standards is expected to boost productivity and further upgrade the quality of development projects.

- **Headwaters Group company Net Business Support started the first partnership in Japan with Clay Inc., a U.S. unicorn AI company – Linkage with Beegle Data, which covers about 750,000 Japanese companies, for a service that enables autonomous AI to conduct B-to-B outbound sales activities – (June 18)**

BtoB マーケティングの
ネットビジネスサポート
NBS
clay

- Net Business Support (NBS), a member of the Headwaters Group, has started a partnership with Clay Inc., a U.S. unicorn company. This is the first partnership in Japan between Clay and a Japanese corporate data supply company.

- NBS will give Clay access to Beegle Data, which has information on about 750,000 companies. The purpose is to raise the efficiency of Clay’s B-to-B sales activities by using the data to select companies to target and for other support.

- This partnership contributes to the digital transformation of sales activities targeting Japanese companies by using AI for sales lists, company surveys and outreach automation.

List of Topics (1)

No.	Title	Category
1	Headwaters supports the development of a vocal command prototype for Remote Robotics Inc. that uses HWS Agent Camp	AI Agent
2	Notice of Headwaters' appearance at the Growth IR Seminar for individual investors	IR Activities
3	Notice of Change in Controlling Shareholder Other Than Parent Company	IR Activities
4	Notice of Change in Subsidiary Due to an Absorption-type Merger with BBD Initiative	IR Activities
5	Notice of Headwaters and BBD Initiative Merger Agreement	IR Activities
6	Extraordinary Report	IR Activities
7	Extraordinary Report	IR Activities
8	Financial Supplementary Materials for the FY2025	IR Activities
9	Consolidated Financial Results for the Fiscal Year Ended December 31, 2025 (Under Japanese GAAP)	IR Activities
10	Notice Regarding Change of Certified Public Accountants	IR Activities
11	Extraordinary Report	IR Activities
12	Notice of Difference Between Forecast and Actual Results, and Recording of Non-operating Expenses (Derivative Valuation Loss)	IR Activities

List of Topics (2)

No.	Title	Category
13	Headwaters strengthens context engineering to accelerate the business implementation of AI agents for enterprise companies	AI Agent
14	Financial Supplementary Materials for FY2025 (Revised)	IR Activities
15	(Numerical and Other Corrections) Announcement of Partial Corrections to Consolidated Financial Results for the Fiscal Year Ended December 31, 2025 (Under Japanese GAAP)	IR Activities
16	Result of Operations for FY2025	IR Activities
17	FY2025 Annual General Meeting of Shareholders Electronic Provision of Other Items (Items Omitted from Paper Documents)	IR Activities
18	Notice of the Annual General Meeting of Shareholders and Meeting Materials for FY2025	IR Activities
19	Independent Officers Report	IR Activities
20	Announcement of Partial Corrections to Notice of Convocation in the 21st Annual General Meeting of Shareholders	IR Activities
21	Statutory Pre-Disclosure Documents (Merger and Absorption) (BBD Initiative)	IR Activities
22	[Delayed] Financial Supplementary Materials for FY2025	IR Activities
23	[Delayed] Consolidated Financial Results for the Fiscal Year Ended December 31, 2025	IR Activities
24	Headwaters supports the early development of Pioneer Ride Connect, a UX solution for motorcycles provided by Pioneer	Industry DX Solutions

List of Topics (3)

No.	Title	Category
25	Headwaters announces SyncLect Data Intelligence, a solution that converts tacit knowledge into structured data that can be utilized by AI	Data & AI
26	Headwaters launches an improvement cycle model supporting the production-level AI shift and development of AI agents for conventional SaaS implementations	AI Agent
27	Securities Report — 21st Fiscal Period (January 1, 2025-December 31, 2025)	IR Activities
28	Extraordinary Report	IR Activities
29	Articles of Incorporation (as of January 1, 2026)	IR Activities
30	Business Plan and Growth Potential	IR Activities
31	[Delayed] Results of Operations for FY2025	IR Activities
32	Development of package design support AI agent for TRY-FU	AI Agent
33	Notice Regarding Issuance of New Shares as Restricted Shares to Directors of the Company	IR Activities
34	Start of the AI-Rule as Code solution for regulated industries. Structural reduction in the cost of modifying IT systems every time a law or regulation is revised	AI Governance / Compliance
35	Headwaters confirms the effectiveness of an AI agent for JRE MALL, the e-commerce site of East Japan Railway Company	AI Agent
36	Headwaters designs and develops a new AI-OCR system using the generative AI for Daiichi Life Insurance Co., Ltd. Data reading accuracy up 20% and operating cost down about 50%	Data & AI

List of Topics (4)

No.	Title	Category
37	Extraordinary Report	IR Activities
38	Notice Regarding Major Shareholder Change	IR Activities
39	Statutory Post-Disclosure Documents (Merger and Absorption) (BBD Initiative)	IR Activities
40	Notice Regarding Completion of Payment for Issuance of New Shares as Restricted Stock Compensation to Directors of the Company	IR Activities
41	Headwaters Group company BoostMarketing started providing Dekinai Zero AI (AI that can do anything), an AI agent service using Dify	AI Agent
42	Financial Supplementary Materials for the First Quarter of FY2026	IR Activities
43	Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2026 (Under Japanese GAAP)	IR Activities
44	Notice Regarding Changes in Reportable Segments	IR Activities
45	Notice Regarding the Revision of the Full-year Earnings Forecasts	IR Activities
46	Notice Regarding Purchase of Treasury Stock due to Purchase of Fractional Shares Caused by the Merger	IR Activities
47	Notice Regarding Recording of Non-operating expenses	IR Activities
48	Notice Regarding Financial Information Disclosure by BBD Initiative Following the Delisting Due to the Merger	IR Activities
49	Extraordinary Report	IR Activities
50	Financial Supplementary Materials for the First Quarter of FY2026 (Revised)	IR Activities
51	[Delayed] Financial Supplementary Materials for the First Quarter of FY2026	IR Activities
52	[Delayed] Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31,2026	IR Activities

List of Topics (5)

No.	Title	Category
53	The SAIDDar AI engineering OS of Headwaters uses AI-driven development for organizational standards rather than reliance on individual decisions	AI-driven Development
54	(Corrections) Announcement of Partial Corrections to Notice Regarding the Revision of the Full-year Earnings Forecasts	IR Activities
55	(Numerical and Other Corrections) Announcement of Corrections to Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2026 (Under Japanese GAAP)	IR Activities
56	Headwaters Group company Net Business Support started the first partnership in Japan with Clay Inc., a U.S. unicorn AI company	AI Agent
57	Headwaters Group company DATA IMPACT JOINT STOCK COMPANY took first place in the corporate category of the Microsoft Agent Hackathon	AI Agent

Sustainability Policy and Materiality

Basic Policy for Sustainability

Headwaters bases operations on the corporate philosophy of “social implementation of new technologies.” We are determined to use AI and digital technologies to contribute to the realization of a sustainable society. Our mission is to use our technological skills to solve social issues and to work with all stakeholders for the creation of a sustainable society.

Digital Innovation for Sustainability

By fully utilizing the potential of AI and digital technologies, Headwaters is playing a key role in the digital transformation of society by contributing to the accomplishment of the Sustainable Development Goals.

Basic goals

- **Responsible development and provision of AI**
- **Maximization of the value of people**
- **Sustainable operation of businesses**
- **Co-creation with all stakeholders**
- **Help solve social issues**

Key issues (Materiality)

- **Ethical use of AI and social responsibilities**
- **Recruiting and training of people with technical skills**
- **Ensuring information security and privacy**
- **Actions to combat climate change and to increase energy efficiency**
- **Inclusive workplaces and health management**

Initiatives for SDGs and Targets (Key Issues x SDG Initiatives)

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

Key issue	Initiatives	SDGs
Ethical AI and social responsibilities	The trustworthy use of AI with transparency and responsibility. Contributions to solving social issues.	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 16 PEACE, JUSTICE AND STRONG INSTITUTIONS; 17 PARTNERSHIPS FOR THE GOALS
Create new business value	Use new technologies and AI/DX education programs for creating new forms of value in business operations. Offer new services that contribute to society	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Diversity/Working style reforms	Support diversity and health management, and provide flexibility regarding how people do their jobs More programs to enable employees to do their jobs while taking time off for a birth, child care, elderly parent care or other family responsibilities	5 GENDER EQUALITY; 8 DECENT WORK AND ECONOMIC GROWTH; 10 REDUCED INEQUALITIES
Fair and ethical business activities	Increase soundness of governance, strict adherence to business ethics Extensive information disclosure and dialogues; compliance with code of conduct; more effective Board of Directors	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Co-creation of value with business partners	Goals are solving social issues and adding more business domains Strategic investments that use alliances and M&A	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 17 PARTNERSHIPS FOR THE GOALS
Protection of the environment	A commitment to supplying services with a small environmental impact and lowering CO_2 emissions	7 AFFORDABLE AND CLEAN ENERGY; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION
Education programs	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	4 QUALITY EDUCATION; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Initiatives

Headwaters

Climate change / Environment

- Expressed support for the TCFD recommendations
- Participated in the TCFD consortium
- Participated in the OSAKA Zero Carbon Foundation
- Participation in the Basic Concept of the GX League
- Developed the “Tabe nate” app for reduction of food loss

Working style reforms / Diversity

- Certified as a company that complies with the Telework Tokyo Rules
- Certified as a Shinjuku-ku Work-Life Balance Promotion Company
- Obtained the Kurumin certification
- Obtained the Silver Certification for being healthy companies
- Certification as 2026 Health & Productivity Management Outstanding Organization
- Casy (housework service to support employees)
- Resort Works (a workation program for flexible working styles)
- Started using Benefit Station (an employee benefit service)
- Started relocation expense payments
- Started provision of female hygiene items at workplaces
- Started an infertility treatment service

Next-generation education / Social responsibility

- Participation in Door to the Future events
  → Booth providing first-hand generative AI experience
- Support for the Everyone Can Make an App program of the Tokyo Metropolitan Board of Education
  → Support for workshops and hackathons at Tokyo public schools
  → Activities to increase digital literacy
- AI Kids Day (an event for families that uses AI)

OZCaF
OSAKA Zero Carbon Foundation

2023年認定
くるみん
子育てサポートしています

2026
健康経営優良法人
KENKO Investment for Health
大規模法人部門

TCFD Consortium

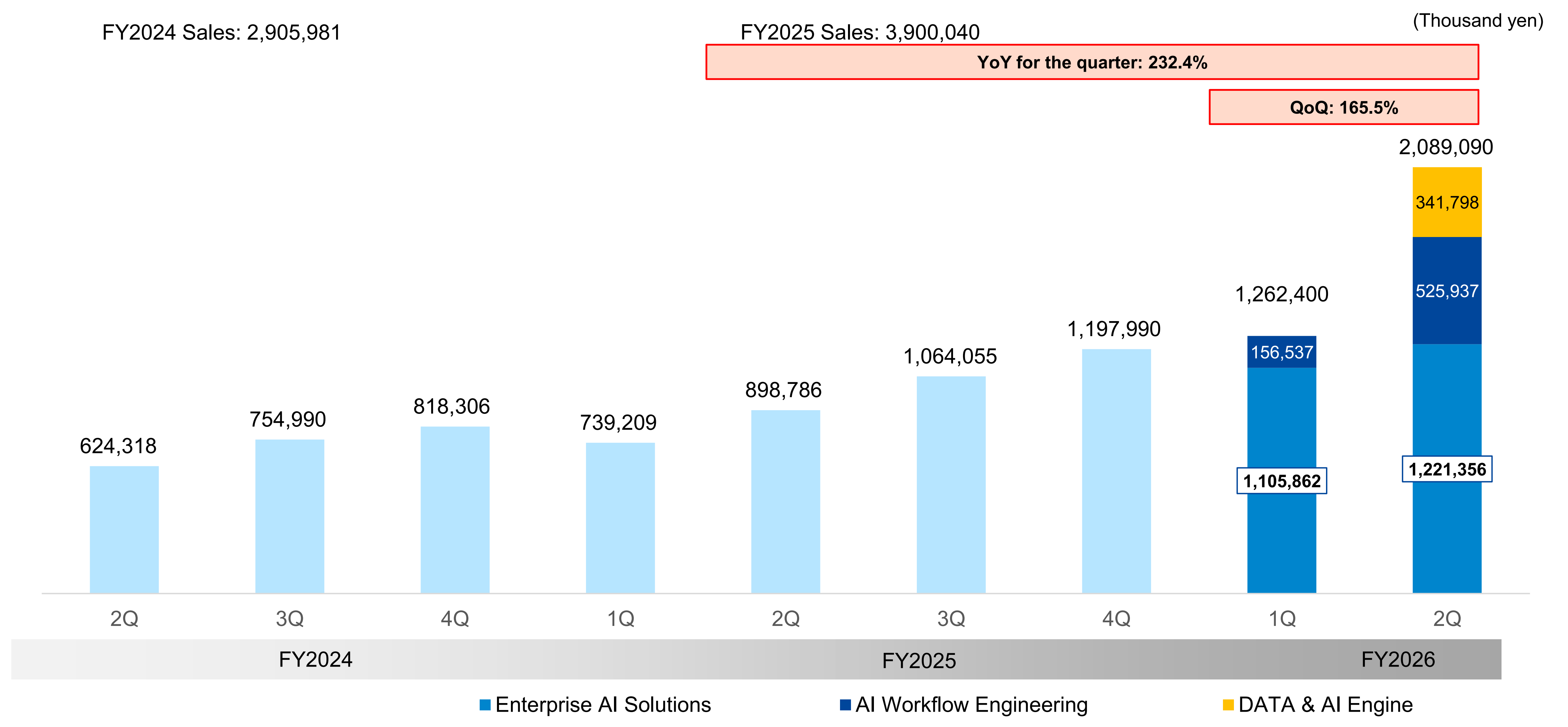
TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Nishitan ART Clinic

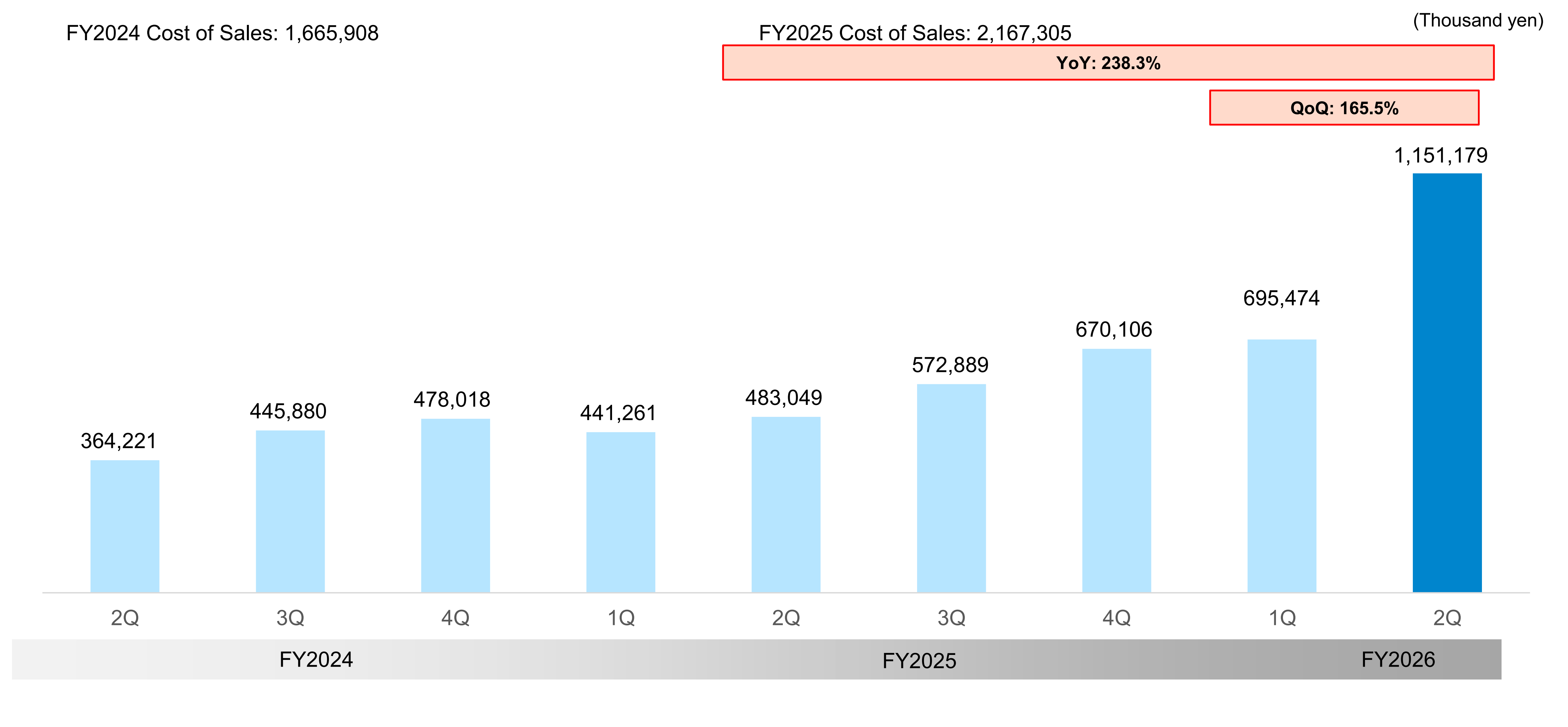
GX League

Laurier in Workplace
職場のロリエ
Laurier
ロリエ

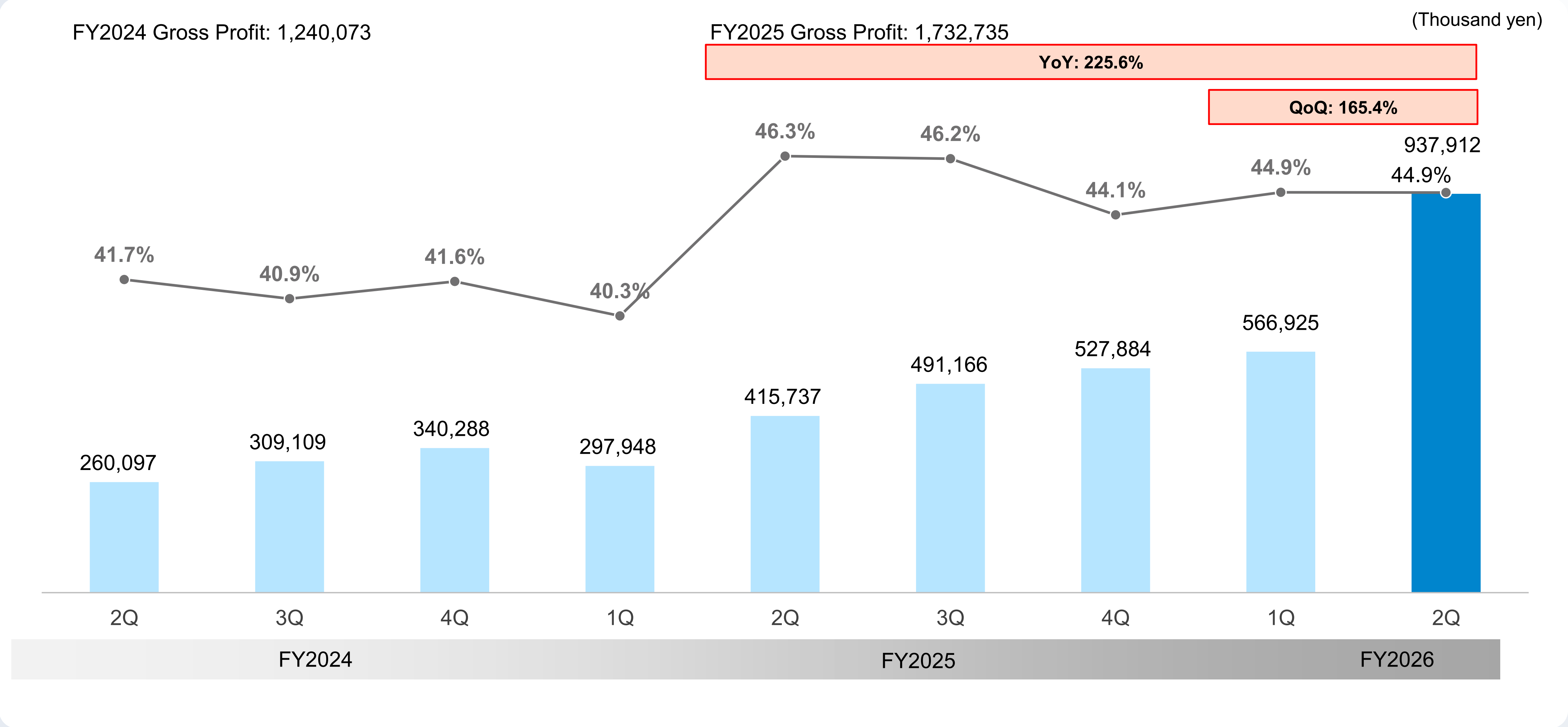
Net Sales by Segment



Cost of Sales



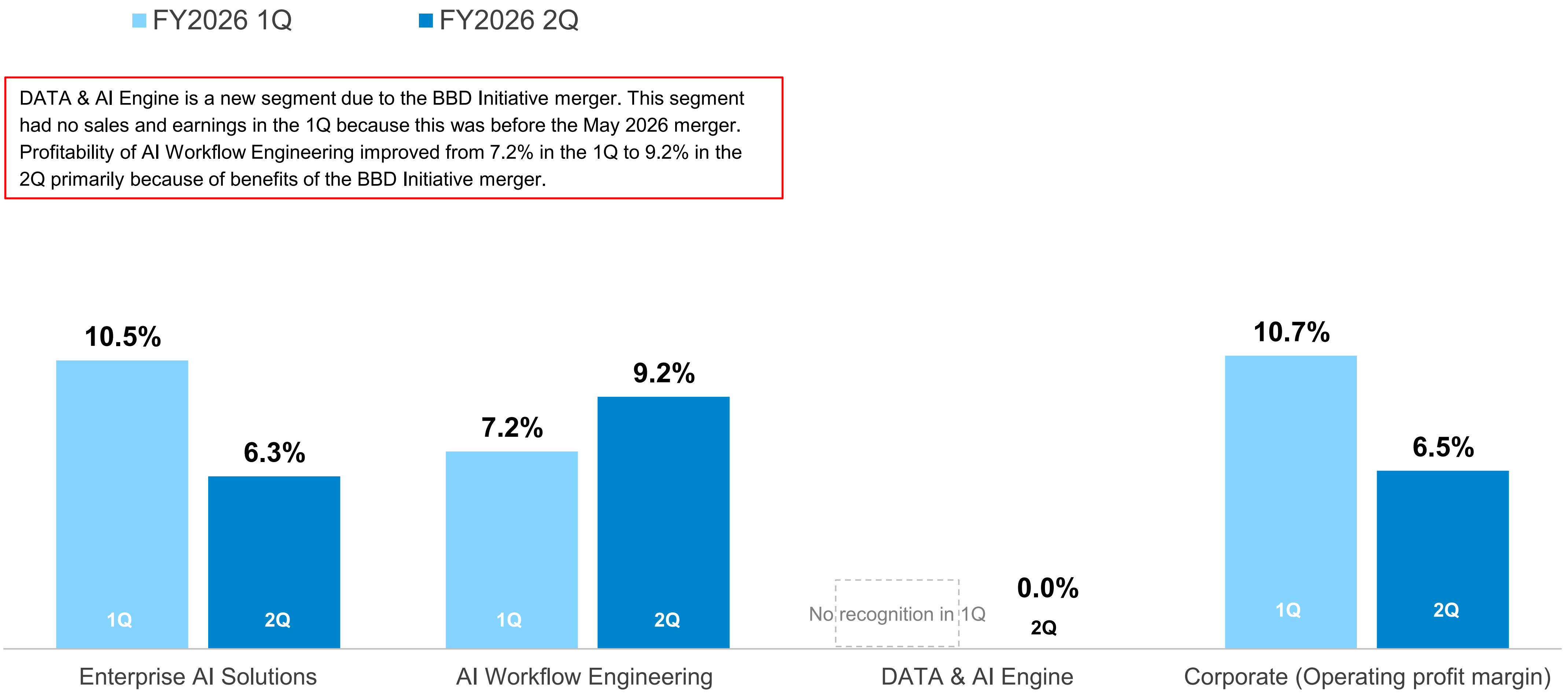
Gross Profit



Operating Profit Margin

(%)

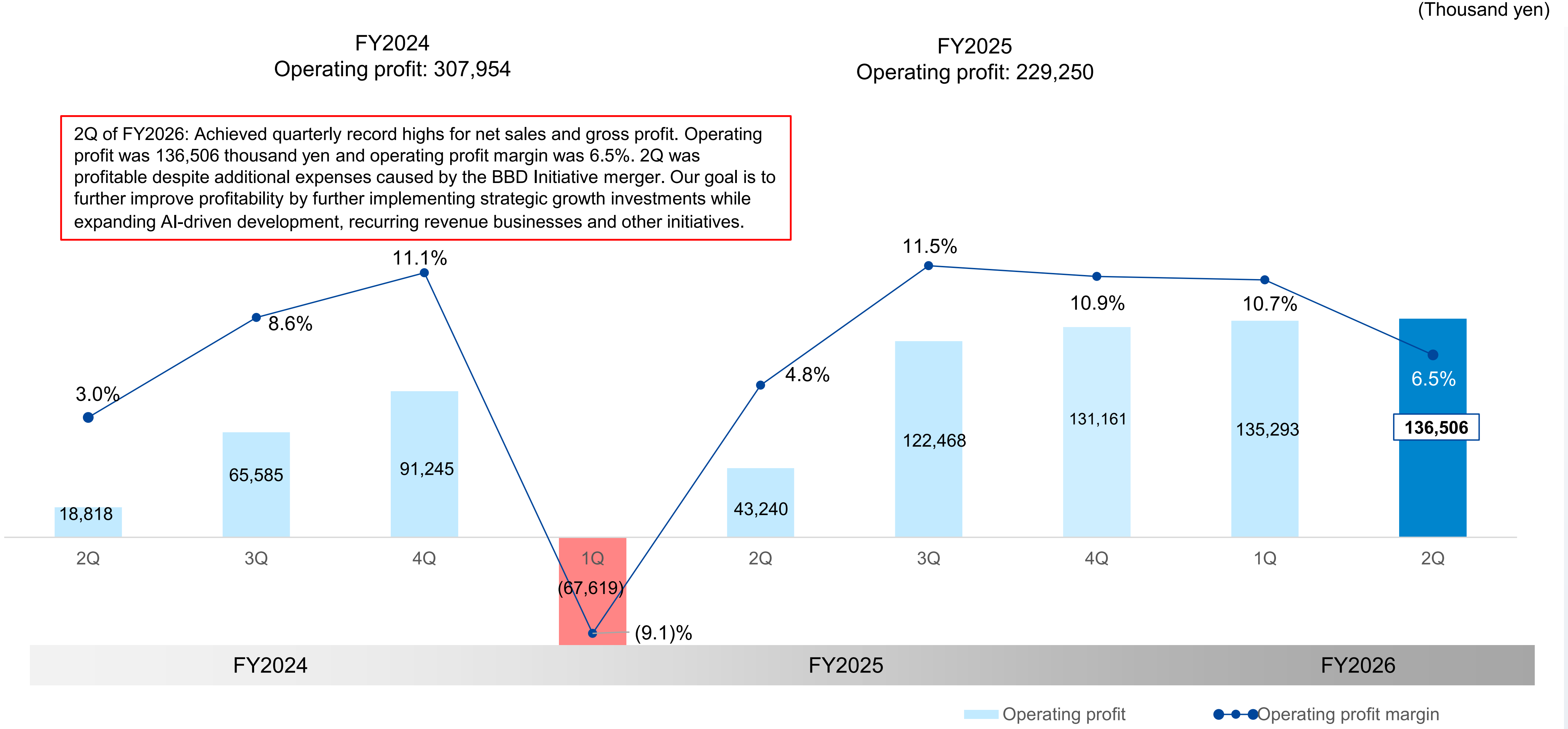
DATA & AI Engine is a new segment due to the BBD Initiative merger. This segment had no sales and earnings in the 1Q because this was before the May 2026 merger. Profitability of AI Workflow Engineering improved from 7.2% in the 1Q to 9.2% in the 2Q primarily because of benefits of the BBD Initiative merger.



*2Q profit margins are calculated by deducting 1Q results from 1H results. Profitability is segment profit divided by sales.

Operating Profit / Operating Profit Margin

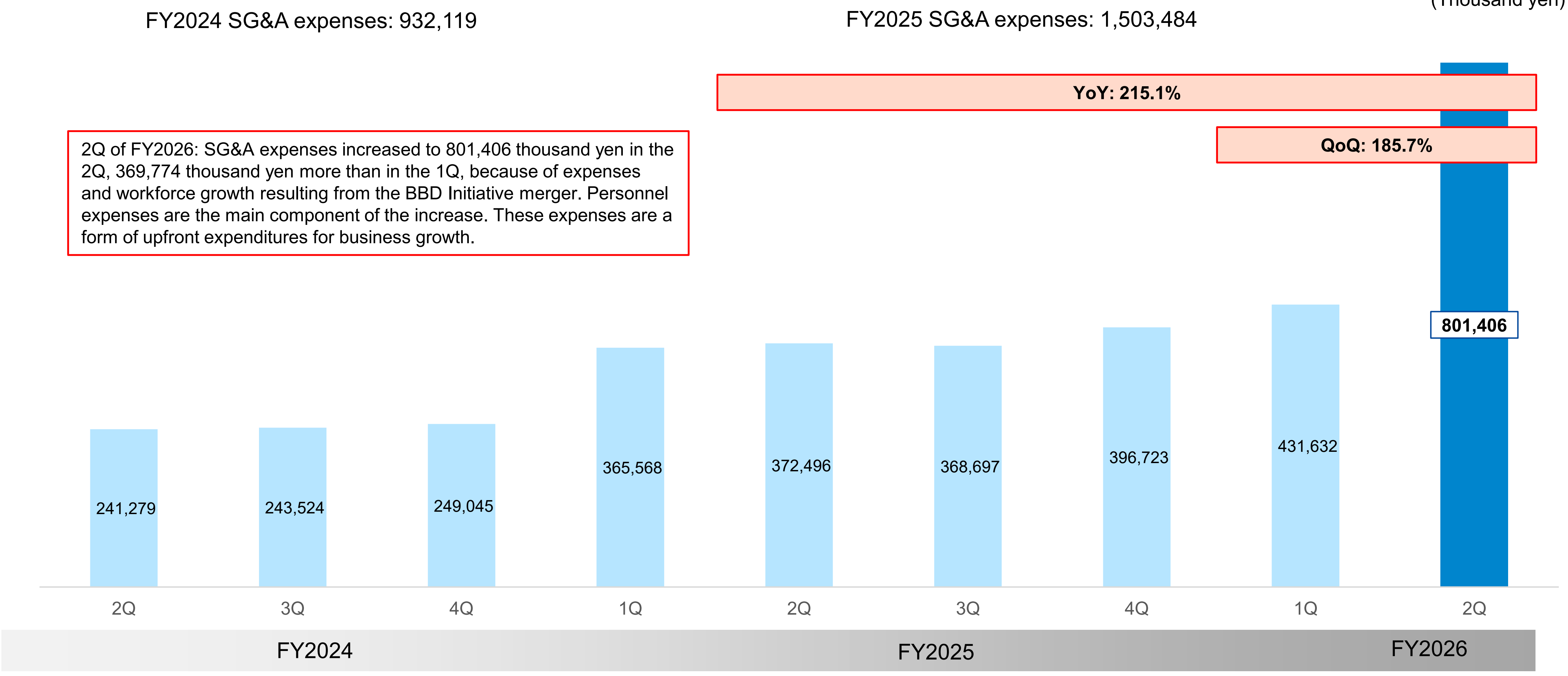
2Q of FY2026: Achieved quarterly record highs for net sales and gross profit. Operating profit was 136,506 thousand yen and operating profit margin was 6.5%. 2Q was profitable despite additional expenses caused by the BBD Initiative merger. Our goal is to further improve profitability by further implementing strategic growth investments while expanding AI-driven development, recurring revenue businesses and other initiatives.



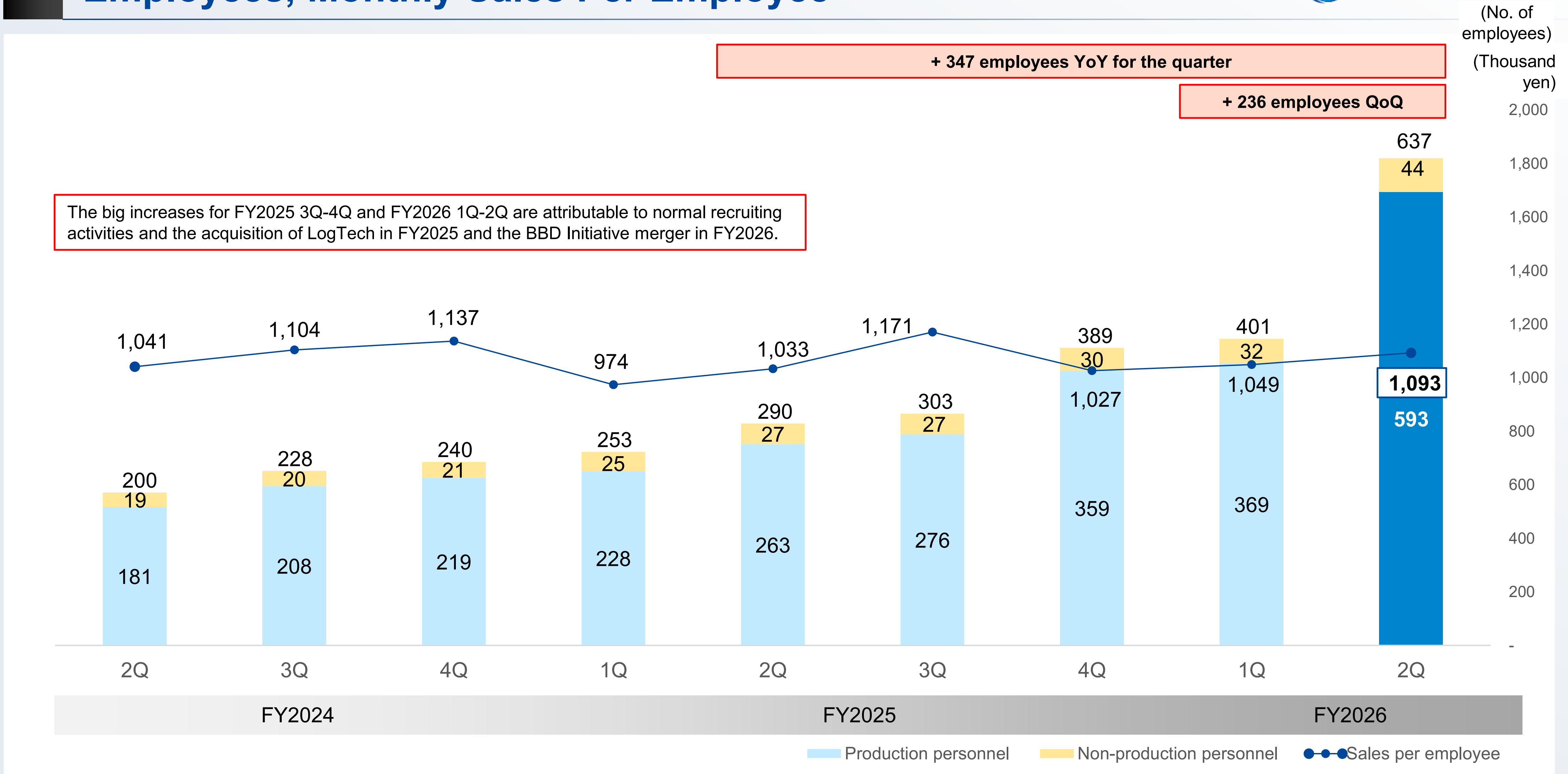
SG&A Expenses

(Thousand yen)

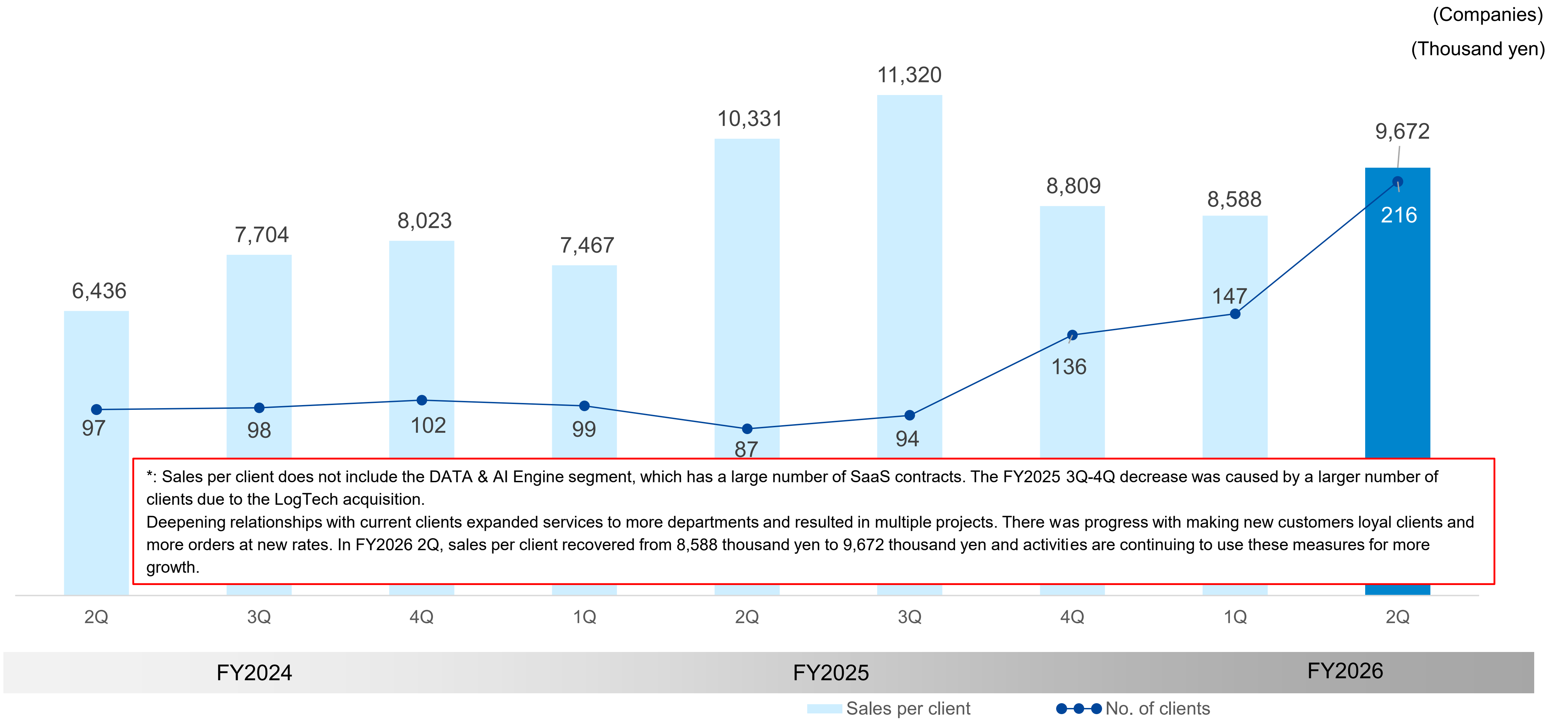
2Q of FY2026: SG&A expenses increased to 801,406 thousand yen in the 2Q, 369,774 thousand yen more than in the 1Q, because of expenses and workforce growth resulting from the BBD Initiative merger. Personnel expenses are the main component of the increase. These expenses are a form of upfront expenditures for business growth.



Employees, Monthly Sales Per Employee



Number of Clients and Sales Per Client



*: Sales per client does not include the DATA & AI Engine segment, which has a large number of SaaS contracts. The FY2025 3Q-4Q decrease was caused by a larger number of clients due to the LogTech acquisition.
Deepening relationships with current clients expanded services to more departments and resulted in multiple projects. There was progress with making new customers loyal clients and more orders at new rates. In FY2026 2Q, sales per client recovered from 8,588 thousand yen to 9,672 thousand yen and activities are continuing to use these measures for more growth.

Business Segment Client Information (No. of Clients, Sales per Client, ARR)

(1) Sales (Quarterly, non-consolidated)

Segment	No. of clients (2Q)	Sales per client (2Q / thousand yen)	Net sales (2Q / thousand yen)
Enterprise AI Solutions	107	11,415	1,221,356
AI Workflow Engineering	123	4,276	525,937

(2) Recurring revenue (SaaS, ARR basis)

Segment	No. of contracts	ARR (thousand yen)	Net sales (2Q / thousand yen)
DATA & AI Engine	3,116	1,586,751	341,798

The number of clients, sales per client and ARR are shown from FY2026 2Q as reference indicators concerning the size and clients under the new segment structure.

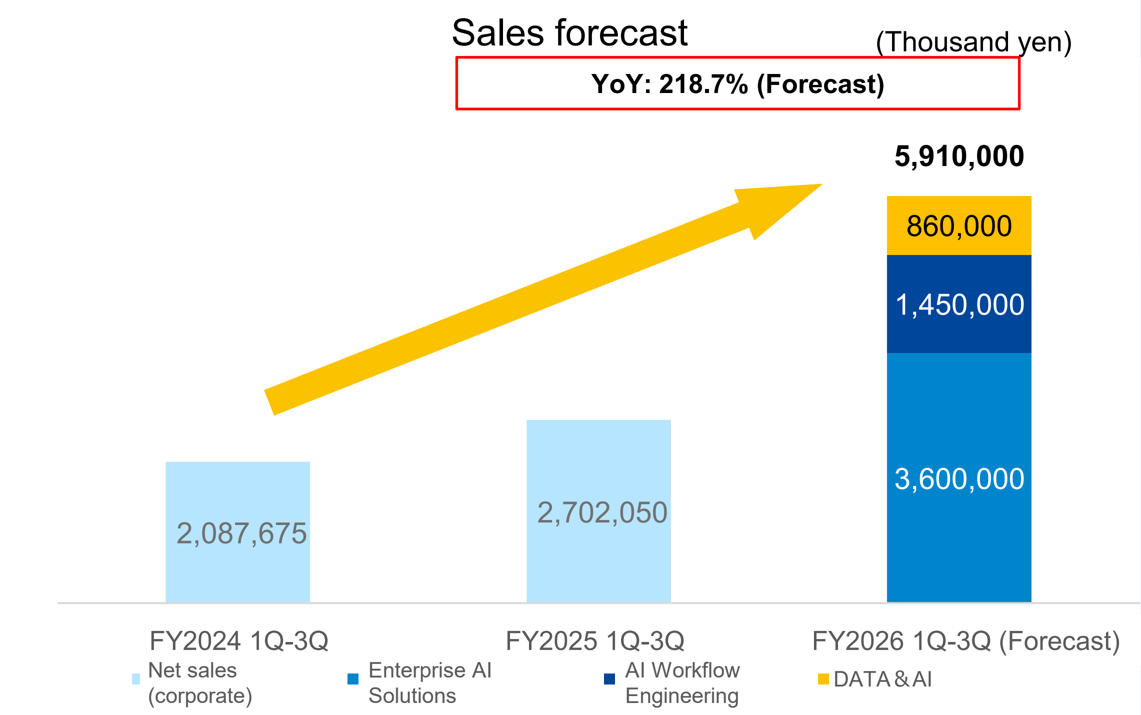
*Headwaters may revise performance indicators to reflect the characteristics of business operations, reviews of indicators used by management or other reasons.

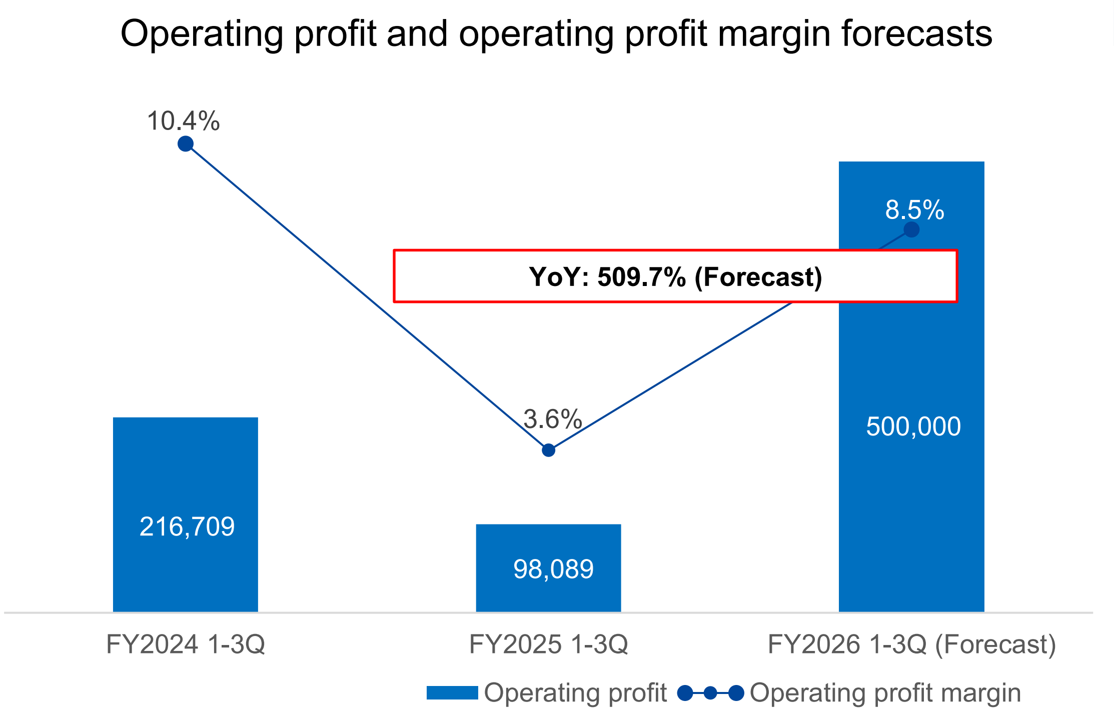
Forecast for the Third Quarter of FY2026

Headwaters sees FY2026 as a period in which the AI market will continue to expand through AI agents. Based on this outlook, Headwaters is increasing the number of projects involving AI agents and using PMI to build a sound base for the operations of the Headwaters Group. These activities are expected to create an additional source of earnings starting in FY2026 3Q.

- Net sales: The FY2026 1Q-3Q forecast is 5,910 million yen, 76% more than 1Q-2Q sales because of more AI agent projects and stronger ties among group companies.
- Gross profit margin: Forecast a margin of about 45% as in the 2Q.
- SG&A expenses: Expenses are expected to be generally as planned even as investments continue for PMI and more growth.
- Operating profit: Forecast a 3Q operating profit margin of more than 8% as the margin remains steady while sales grow.

(The graphs show forecasts for the first three quarters.)





* 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.

- 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 FY2026 1Q and FY2026 2Q
  - **YoY:** A comparison between the cumulative figures of the previous fiscal year and the current fiscal year

    → Comparison between figures of FY2025 1Q-2Q and FY2026 1Q-2Q
  - **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 FY2025 2Q and FY2026 2Q
- 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.