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Summary of Financial Results for the First Three Quarters of the Fiscal Year Ending September 30, 2019 [Japan Standards] (Consolidated)

August 13, 2019

Company name: CrowdWorks Inc.	Stock listing: Tokyo Stock Exchange
Securities code: 3900	URL: https://crowdworks.co.jp
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Scheduled filing date of quarterly report:	August 13, 2019
Scheduled payment date of dividend:	—
Supplementary materials for the quarterly financial results:	Yes
Investor conference for the quarterly financial results:	None

(Millions of yen rounded down)

1. Consolidated Financial Results for the First Three Quarters of the Fiscal Year Ending September 30, 2019 (From October 1, 2018 to June 30, 2019)

(1) Consolidated Financial Performance

(% figures represent year-on-year increase or decrease)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Q1–Q3/ FY ending September 30, 2019	6,513	34.5	62	—	74	—	(70)	—
Q1–Q3/ FY ended September 30, 2018	4,842	141.1	(78)	—	(77)	—	(168)	—

Note: Comprehensive income	Q1–Q3/ FY ending September 30, 2019	(120) million yen (— %)
	Q1–Q3/ FY ended September 30, 2018	(144) million yen (— %)

	Profit per share	Diluted profit per share
	Yen	Yen
Q1–Q3/ FY ending September 30, 2019	(4.79)	—
Q1–Q3/ FY ended September 30, 2018	(12.24)	—

Note: “Diluted profit per share” is not stated since net loss per share is recorded, while there is a balance of new share subscription rights.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Millions of yen	Millions of yen	%
As of June 30, 2019	6,273	3,174	49.7
As of September 30, 2018	5,957	2,227	35.7

Reference: Shareholders' equity	As of June 30, 2019	3,115 million yen
	As of September 30, 2018	2,126 million yen

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	End of Q4	Annual
	Yen	Yen	Yen	Yen	Yen
FY ended September 30, 2018	—	0.00	—	0.00	0.00
FY ending September 30, 2019	—	0.00	—		
FY ending September 30, 2019 (Forecast)				0.00	0.00

Note: Revision of most recently published dividend forecast: None

3. Consolidated Financial Forecasts for the Fiscal Year Ending September 30, 2019 (From October 1, 2018 to September 30, 2019)

(% figures represent year-on-year increase or decrease)

	Net sales		Operating profit (loss)	
	Millions of yen	%	Millions of yen	%
Full year	8,700	31.1	—	—

Notes: 1. Revision of most recently published financial forecast: No

2. CrowdWorks (hereinafter, "the Company") plans to maintain profitability of operating profit in the consolidated financial forecasts for the fiscal year ending September 30, 2019, but the Company refrains from disclosing a specific amount in view of a possibility to make flexible investment decisions due to the intensifying recruitment environment of development employees and the competitive environment of Fintech services. Also, the Company aims at growth of 40% or more year-on-year for the total contract value and 30% or more year-on-year for net sales and gross profit, and the Company will promote enhanced corporate value realizing proactive investments in an efficient manner by securing resources for reinvestment through increased gross profit.

* Notes

(1) Significant changes in subsidiaries during the nine-month period ended June 30, 2019 (changes in specific subsidiaries affecting the scope of consolidation): None

New: — (Company name:) Excluded: — (Company name:)

(2) Application of accounting procedures specific to preparing quarterly consolidated financial statements: None

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

1) Changes in accounting policies associated with revision of accounting standards: None

2) Changes in accounting policies other than the above 1): None

3) Changes in accounting estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at term-end (including treasury shares)

As of June 30, 2019: 15,100,160 shares

As of September 30, 2018: 14,319,160 shares

2) Number of treasury shares at term-end

As of June 30, 2019: 48 shares

As of September 30, 2018: — shares

3) Number of average shares outstanding during term (quarterly total)

Q1–Q3/ FY ending September 30, 2019: 14,664,391 shares

Q1–Q3/ FY ended September 30, 2018: 13,805,090 shares

* The Summary of Quarterly Financial Results is not subject to the quarterly review by certified public accountants or audit corporations.

* Explanation regarding the appropriate use of the earnings forecast, and other noteworthy items

The forward-looking statements such as result forecasts included in this document are based on the information available to the Company at the time of the announcement and on certain assumptions considered reasonable, and the Company makes no representations as to their achievability. Actual results may differ materially from the forecast depending on a range of factors.

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1. Qualitative Items Regarding the Quarterly Accounts

(1) Summary of Business Results

Since its foundation, the CrowdWorks Group (hereinafter, “the Group”) has been promoting crowdsourcing business, which is a system to enable individuals to receive monetary rewards by using the Internet, raising a vision of “Work-style revolution – To become the world’s biggest platform that provides the largest amount of monetary rewards through the Internet.” Specific contents of services are a direct matching service centering on the Japan’s largest crowdsourcing “CrowdWorks” as the core, differentiating into agent matching services to support matching of corporations and individuals by the Company's staff that includes “CrowdTech” and “BizAsst. Online” while responding to market needs, and further derived peripheral businesses aiming at creation of an environment that facilitates earning of monetary rewards for individuals.

In recent years, Japanese government has spearheaded work-style reforms, spurring an expansion of new ways for individuals to work, such as freelance and side job. This trend creates an advantageous situation for the growth of the market that the Company serves. Supported by these favorable conditions, the Company is advancing a strategy that places top priority on continued business growth.

The Company’s policy is to pursue maximization of total contract value—the total amount of transactions handled through the Company’s services—through continuous reinvestment, within a range that maintains an operating surplus. At the same time, to expand the gross profit that is the source of reinvestment, the Company is endeavoring to support and improve its take rate—the rate of value added from operations, defined as the ratio of gross margin to total contract value.

As a result of the foregoing, net sales for the consolidated cumulative third quarter (“Q1–Q3”) of the fiscal year under review grew 34.5% from the same period of the previous fiscal year (YoY) to 6,513.746 million yen, operating profit was 62.077 million yen (operating loss in the same period of the previous fiscal year was 78.993 million yen), ordinary profit was 74.229 million yen (ordinary loss in the same period of the previous fiscal year was 77.407 million yen) and loss attributable to owners of parent was 70.224 million yen (loss attributable to owners of parent in the same period of the previous fiscal year was 168.941 million yen).

Financial results by segment are as follows:

1) Direct Matching Business

The Direct Matching Business continued to expand in scale though segment losses deepened. At CrowdWorks, a fully internet-based service, the Company seeks to maximize total contract value by bolstering both the number of contract workers and the contract value per person. In Q1–Q3, the Company placed emphasis on acquiring new worker registrations and increasing its matching rate by improving its customer experience. This effort bore fruit with an upturn in the number of contract workers. Net sales gained 18.5% YoY to reach 836.586 million yen. The segment loss was 36.228 million yen due to increasing of advertising expenses (segment loss in the same period of the previous fiscal year was 12.996 million yen). The Company considers that the increase in number of registered workers leaves room for expansion of the total request amount from client companies and is therefore redoubling its undertaking to attract corporate clients.

2) Agent Matching Business

The Agent Matching Business enjoyed YoY growth during Q1–Q3. CrowdTech expanded steadily during the period. Transfer of the Cyta business, completed in Q2 of the previous consolidated fiscal year, and conversion of DENEN Co., Ltd. into a subsidiary, completed in Q1 of the previous consolidated fiscal year, continued to contribute to income. As a result, net sales were 3,483.670 million yen (up 32.5% YoY), and segment profit was 74.148 million yen, against a segment loss of 67.546 million yen in the same period of the previous fiscal year. The Company is striving to increase registration of workers with high unit monetary rewards rate, generated by high levels of worker skills and confidence from corporate clients. To this end, the Company is reinforcing its sales framework at its West Japan base, to reach new user companies in the current consolidated fiscal year.

3) Business Solution Business

The Business Solution Business benefited from the conversion of DENEN Co., Ltd. into a subsidiary, completed in Q1 of the previous consolidated fiscal year, as well as the inclusion of DENEN Co., Ltd. and I/O System Integration Co., Ltd. in the

consolidated accounts. Net sales increased 32.3% YoY to 1,994.379 million yen. However, an increase in development work-hours for long-term development projects at the end of Q3 prompted an increase in the sales cost ratio. Segment profit of 24.832 million yen was appropriated (down 74.6% YoY).

4) Fintech Business

The Fintech Business is a reportable segment established in Q3 of the previous consolidated fiscal year. In this segment the Company developed “feecle,” a service that guarantees freelancers’ receipt of monetary rewards. At Crowd Money Inc., the Company had developed a digital wallet application to allow use of monetary rewards for payment at retail outlets and the like. However, due to changes in the competitive environment in the target market, the Company withdrew from the project in Q3 of the current consolidated fiscal year and decided to liquidate Crowd Money. The Company therefore terminated contracts of system development among other things. Considering the fact, net sales increased to 893 thousand yen (Net sales in the same period of the previous fiscal year was 27 thousand yen), while segment loss increased to 76.027 million yen, against segment loss of 34.197 million yen in the same period of the previous fiscal year.

5) Investment Development Business

The Investment Development Business became a reportable segment in Q2 of the previous consolidated fiscal year. The Company sold operational investment securities in Q1 and Q3 and appropriated a loss on valuation of operational investment securities in Q2. The segment turned in net sales of 198.216 million yen (Net sales was nothing in the same period of the previous fiscal year) and segment profit of 148.571 million yen, contrasting with a segment loss of 25.249 million yen in the same period of the previous fiscal year.

(2) Summary of Financial Position

(Assets)

Total assets at end of Q3 stood at 6,273.693 million yen, up 315.796 million yen from the end of the previous consolidated fiscal year. Key factors supporting this result were an increase of 533.340 million yen in cash and deposits, caused by exercise of subscription rights to shares with clauses on revised exercise prices and permission to exercise, and an increase of 86.317 million yen in notes and accounts receivable–trade, resulting from growing transaction volumes due to expanding operations. However, an acceptance inspection of long-term development projects in the Business Solution Business engendered a decrease in work in process of 191.336 million yen, while impairment accounting of software prompted a decrease of 96.060 million yen in other intangible assets.

(Liabilities)

Total liabilities at end of Q3 were 3,099.096 million yen, down 631.189 million yen from the end of the previous consolidated fiscal year. Major factors in this result included decreases respectively of 650 million yen in short-term loans payable, 74.335 million yen in long-term loans payable (including current portion of long-term loans payable), 215.920 million yen in bonds payable (including current portion of bonds), resulting from repayments and reimbursements of the above.

(Net assets)

Net assets at end of Q3 were 3,174.597 million yen, up 947.166 million yen from the end of the previous consolidated fiscal year. This increase resulted mainly from a rise of 532.521 million yen in both capital stock and capital surplus, arising from an increase in allocations to third parties.

(3) Forecast of Business Results and Future Prospects

The Group’s forecast of business results for FY 2019 (consolidated fiscal year ending September 30, 2019) remains unchanged from the previous announcement on November 14, 2018 but is currently under review. If it judges that a revision of the forecast of business results is required, the Group will publish such revision promptly.

2. Quarterly Consolidated Financial Statements and Important Notes**(1) Quarterly Consolidated Balance Sheets**

	Fiscal Year Ended September 30, 2018 (As of September 30, 2018)	Q3/ Fiscal Year Ending September 30, 2019 (As of June 30, 2019)
(Thousands of yen)		
Assets		
Current assets		
Cash and deposits	3,021,105	3,554,446
Notes and accounts receivable - trade	786,916	873,233
Accounts receivable - other	461,409	468,569
Deposits paid	26,982	13,807
Operational investment securities	107,894	59,553
Merchandise and finished goods	74,245	45,580
Work in process	250,508	59,172
Other	47,711	100,134
Allowance for doubtful accounts	(18,202)	(11,919)
Total current assets	4,758,570	5,162,577
Non-current assets		
Property, plant and equipment	82,011	96,117
Intangible assets		
Goodwill	754,329	688,077
Other	111,948	15,887
Total intangible assets	866,277	703,965
Investments and other assets		
Other	266,312	326,487
Allowance for doubtful accounts	(15,454)	(15,454)
Total investments and other assets	250,857	311,032
Total non-current assets	1,199,146	1,111,115
Total assets	5,957,717	6,273,693

	(Thousands of yen)	
	Fiscal Year Ended September 30, 2018 (As of September 30, 2018)	Q3/ Fiscal Year Ending September 30, 2019 (As of June 30, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	190,019	198,509
Short-term loans payable	680,000	30,000
Current portion of long-term loans payable	314,243	304,042
Current portion of bonds	520,000	324,080
Accounts payable - other	267,084	447,459
Income taxes payable	75,543	24,043
Provision for bonuses	78,992	78,947
Deposits received	776,323	841,304
Other	222,082	326,438
Total current liabilities	3,124,288	2,574,824
Non-current liabilities		
Long-term loans payable	391,026	326,892
Bonds payable	80,000	60,000
Asset retirement obligations	51,469	53,877
Other	83,502	83,502
Total non-current liabilities	605,997	524,271
Total liabilities	3,730,286	3,099,096
Net assets		
Shareholders' equity		
Capital stock	2,090,457	2,622,978
Capital surplus	2,049,120	2,581,641
Retained earnings	(2,017,155)	(2,087,380)
Treasury shares	—	(64)
Total shareholders' equity	2,122,422	3,117,175
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,812	(1,826)
Total accumulated other comprehensive income	3,812	(1,826)
Subscription rights to shares	372	2,818
Non-controlling interests	100,822	56,428
Total net assets	2,227,430	3,174,597
Total liabilities and net assets	5,957,717	6,273,693

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

Scope of Consolidation of First Three Quarters

(Thousands of yen)

	Q1–Q3/ Fiscal Year Ended September 30, 2018 (Oct. 1, 2017 to June 30, 2018)	Q1–Q3/ Fiscal Year Ending September 30, 2019 (Oct. 1, 2018 to June 30, 2019)
Net sales	4,842,351	6,513,746
Cost of sales	3,005,134	4,175,361
Gross profit	1,837,216	2,338,385
Selling, general and administrative expenses	1,916,209	2,276,308
Operating profit (loss)	(78,993)	62,077
Non-operating income		
Gain from lapsed deposits received	2,428	13,442
Insurance premiums refunded cancellation	—	7,778
Subsidy income	10,000	—
Other	3,338	5,175
Total non-operating income	15,766	26,395
Non-operating expenses		
Interest expenses	12,249	8,777
Share issuance cost	—	3,708
Other	1,932	1,756
Total non-operating expenses	14,181	14,242
Ordinary profit (loss)	(77,407)	74,229
Extraordinary income		
Gain on sales of investment securities	—	26,546
Gain on reversal of subscription rights to shares	—	11
Total extraordinary income	—	26,557
Extraordinary losses		
Loss on retirement of non-current assets	481	1,113
Impairment loss	—	96,440
Loss on valuation of investment securities	—	2,110
Loss on cancellation of contracts	—	81,429
Total extraordinary losses	481	181,094
Loss before income taxes	(77,889)	(80,307)
Income taxes - current	102,323	37,223
Income taxes - deferred	(38,604)	(2,912)
Total income taxes	63,719	34,310
Loss	(141,608)	(114,618)
Profit (loss) attributable to non-controlling interests	27,332	(44,393)
Loss attributable to owners of parent	(168,941)	(70,224)

Quarterly Consolidated Statement of Comprehensive Income

Scope of Consolidation of First Three Quarters

	(Thousands of yen)	
	Q1–Q3/ Fiscal Year Ended September 30, 2018 (Oct. 1, 2017 to June 30, 2018)	Q1–Q3/ Fiscal Year Ending September 30, 2019 (Oct. 1, 2018 to June 30, 2019)
Loss	(141,608)	(114,618)
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,669)	(5,638)
Total other comprehensive income	(2,669)	(5,638)
Comprehensive income	(144,278)	(120,257)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(171,841)	(75,863)
Comprehensive income attributable to non-controlling interests	27,562	(44,393)

(3) Notes on Quarterly Consolidated Financial Statements

(Notes Regarding Going Concern Assumptions)

Not applicable.

(Notes Regarding Significant Changes in Shareholders' Equity)

Previous consolidated cumulative third quarter (October 1, 2017 to June 30, 2018)

1. Dividends distributed

Not applicable.

2. Dividends whose record date is in Q1–Q3 FY 2018 and whose effective date is after the last date of Q3 FY 2018

Not applicable.

3. Significant changes in shareholders' equity

The Company issued 763,500 new shares in Q1–Q3 FY 2018, due to factors such as an increase in allocations to third parties and requests for exercise of subscription rights to shares. As a result, capital stock and capital surplus both increased, by 323.160 million yen and 323.823 million yen respectively, in Q1–Q3 FY 2018. Capital stock at the end of Q3 FY 2018 was 2,090.397 million yen, while capital surplus at the end of Q3 FY 2018 was 2,049.060 million yen.

Current consolidated cumulative third quarter (October 1, 2018 to June 30, 2019)

1. Dividends distributed

Not applicable.

2. Dividends whose record date is in Q1–Q3 FY 2019 and whose effective date is after the last date of Q3 FY 2019

Not applicable.

3. Significant changes in shareholders' equity

The Company issued 781,000 new shares in Q1–Q3 FY 2019, partly in response to requests for exercise of subscription rights to shares. As a result, capital stock and capital surplus both increased by 532.521 million yen in Q1–Q3 FY 2019. Capital stock at the end of Q3 FY 2019 was 2,622.978 million yen, while capital surplus at the end of Q3 FY 2019 was 2,581.641 million yen.

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

Not applicable.

(Segment Information)

Segment Information

For the consolidated first three quarters of the fiscal year ended September 30, 2018 (October 1, 2017 to June 30, 2018)

1. Net sales and profit or loss of each reportable segment

(Thousands of yen)

	Reportable segments						Other (Note 1)	Adjusted amount	Amounts shown on quarterly consolidated statement of income
	Direct Matching	Agent Matching	Business Solution	Fintech	Investment Development	Total			
Net sales									
(1) Sales to external customers	706,092	2,628,208	1,508,022	27	—	4,842,351	—	—	4,842,351
(2) Internal sales or exchange between segments	9,245	—	252	—	—	9,497	—	(9,497)	—
Total	715,338	2,628,208	1,508,274	27	—	4,851,849	—	(9,497)	4,842,351
Segment profit (loss)	(12,996)	(67,546)	97,555	(34,197)	(25,249)	(42,434)	(15,346)	(21,212)	(78,993)

Notes: 1. Classification of "Other" is for business segments which are not included in reportable segments, which includes new development business, etc.

2. Segment profit has been adjusted with operating profit in the quarterly consolidated statement of income and includes the commission fee.

2. Impairment loss and goodwill regarding non-current assets for each reportable segment

(Important impairment loss regarding non-current assets)

Not applicable.

(Important changes in amount of goodwill)

In Q2 FY 2018, the Company purchased shares in DENEN Co., Ltd. and I/O System Integration Co., Ltd. In tandem with this move, the Company appropriated additional goodwill of 380.320 million yen in its Agent Matching Business and of 416.972 million yen in its Business Solution Business, for a total increase in goodwill of 797.293 million yen.

(Important gain on bargain purchase)

Not applicable.

For the consolidated first three quarter of the fiscal year ending September 30, 2019 (October 1, 2018 to June 30, 2019)

1. Net sales and profit or loss of each reportable segment

(Thousands of yen)

	Reportable segments						Other (Note 1)	Adjusted amount	Amounts shown on quarterly consolidated statement of income
	Direct Matching	Agent Matching	Business Solution	Fintech	Investment Development	Total			
Net sales									
(1) Sales to external customers	836,586	3,483,670	1,994,379	893	198,216	6,513,746	—	—	6,513,746
(2) Internal sales or exchange between segments	28,210	31,054	2,718	—	—	61,984	—	(61,984)	—
Total	864,796	3,514,724	1,997,098	893	198,216	6,575,730	—	(61,984)	6,513,746
Segment profit (loss)	(36,228)	74,148	24,832	(76,027)	148,571	135,295	(11,234)	(61,984)	62,077

Notes: 1. Classification of “Other” is for business segments which are not included in reportable segments, which includes new development business, etc.

2. Segment profit has been adjusted with operating profit in the quarterly consolidated statement of income.

2. Impairment loss and goodwill regarding non-current assets for each reportable segment

(Important impairment loss regarding non-current assets)

	Reportable segments						Other	Corporate/ elimination	Total
	Direct Matching	Agent Matching	Business Solution	Fintech	Investment Development	Subtotal			
Impairment loss	—	96,440	—	—	—	96,440	—	—	96,440

Note: 1. Details of impairment loss are as follows.

Application	Location	Category	Impairment loss (thousands of yen)
Operating assets	Shinagawa Ward, Tokyo	Software	96,440

The Group, in principle, groups its assets in consideration of categories appropriate for management accounting, to enable continuous tracking of revenues and expenditures. In the current consolidated cumulative third quarter, the profitability of the operating assets listed above had decreased significantly, and the Company determined that it had little prospect of recouping its investment in those assets. Accordingly, the book value of those assets was written down to a recoverable amount, and said reduction was appropriated as an extraordinary loss, namely an impairment loss.

The recoverable amount was measured in terms of utility value. The above write-down resulted in negative cash flow from continuous operating activities, so future cash flow is calculated as zero.

(Important changes in amount of goodwill)

Not applicable.

(Important gain on bargain purchase)

Not applicable.

(Additional Information)

The Group began applying the Partial Revision of Accounting Standards in Tax-effect Accounting (Corporate Accounting Standards No. 28, February 16, 2018) at the beginning of Q1. As a result, deferred tax assets are listed under Investments and Other Assets, while deferred tax liabilities are listed under Non-current Liabilities.

(Important Subsequent Events)

Not applicable.

3. Other

Material Events Related to Going Concern Assumptions

Not applicable.