

Translation

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Summary of Financial Results for the Six Months Ended June 30, 2021 (Japanese GAAP) (Non-Consolidated)



August 13, 2021

Name of listed company: Chatwork Co., Ltd.

Listing exchange: Tokyo Stock Exchange

Securities code: 4448

URL: <https://go.chatwork.com/ja/>

Representative: Masaki Yamamoto, Representative director, CEO

Contact for inquiries: Naoki Inoue, Director, CFO & VP of Corporate Division

Tel: 81-3-6459-0514

Scheduled date to file quarterly securities report : August 13, 2021

Scheduled date to commence dividend payments: —

Preparation of supplementary materials on quarterly financial results: Yes

Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen)

1. Financial results for the six months ended June 30, 2021

(1) Business results (from January 1, 2021 to June 30, 2021)

(% indicate year-on-year changes)

	Revenue		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended June 30, 2021	1,423	23.3	(119)	—	(118)	—	(120)	—
Six months ended June 30, 2020	1,154	35.3	225	305.1	226	300.0	227	390.4

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2021	(3.26)	—
Six months ended June 30, 2020	6.22	5.73

(Note) Diluted earnings per share for the six months ended June 30, 2021 is not shown in the above table, because basic earnings per share is negative although there are potential shares.

(2) Financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2021	2,617	1,763	67.4
As of December 31, 2020	2,535	1,790	70.6

(Reference) Equity As of June 30, 2021 1,763 million yen As of December 31, 2020 1,790 million yen

2. Cash dividends

	Annual cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended December 31, 2020	—	0.00	—	0.00	0.00
Year ended December 31, 2021	—	0.00	—	0.00	0.00
Fiscal year ending December 31, 2021 (forecast)	—	0.00	—	0.00	0.00

(Note) Changes from forecast dividend most recently announced: No

3. Earnings forecast for fiscal year ending December 31, 2021 (from January 1, 2021 to December 31, 2021)

With regard to the earnings forecast for the fiscal year ending December 31, 2021, please refer to the attachment on page 3, entitled "1. Qualitative Information on Quarterly Financial Results (3) Explanation of Future Forecast Information Including Earnings Forecast."

*Notes

(1) Application of special accounting methods for preparing quarterly Financial statements : No

(2) Changes in accounting policies, changes in accounting estimates, and restatement

1) Changes in accounting policies due to amendment of accounting standards, etc. : No

2) Changes in accounting policies other than 1) : No

3) Changes in accounting estimates : No

4) Restatement : No

(3) Number of shares issued and outstanding (common shares)

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

As of June 30, 2021	37,092,415 shares	As of June 30, 2020	36,880,640 shares
As of June 30, 2021	41 shares	As of June 30, 2020	41 shares
Six months ended June 30, 2021	37,015,317 shares	Six months ended June 30, 2020	36,606,257 shares

2) Number of treasury shares at end of the period

3) Average number of shares during the period (for the six months ended June 30, 2021)

* Summary of quarterly financial results is not subject to quarterly reviews by certified public accountants or audit corporations.

* Explanation regarding appropriate use of earnings forecasts, and other notes

The earnings outlook and other forward-looking statements contained in this document are based on information currently available to and certain assumptions that are thought to be reasonable by the Company. Accordingly, such statements should not be construed as a guarantee of achieving the results by the Company. Actual results and the like may differ materially due to various factors. For the assumptions used for the forecast of financial results and notes on the use of the forecast of financial results, please refer to the attachment on page 3, entitled "1. Qualitative Information on Quarterly Financial Results (3) Explanation of Future Forecast Information Including Earnings Forecast."

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1. Qualitative Information of Quarterly Financial Results

(1) Explanation on Business Results

Business results

In the six months ended June 30, 2021, the Company continued its proactive endeavors to reinforce marketing activities for acquiring new customers, strengthen advertising and marketing activities, and enhance functions of existing services in an effort to achieve continuous business growth.

As a result, the Company achieved net revenue of 1,423,569 thousand yen (up 23.3% compared with the same period of the previous fiscal year), operating loss of 119,534 thousand yen (compared with operating income of 225,261 thousand yen in the same period of the previous fiscal year), ordinary loss of 118,814 thousand yen (compared with ordinary income of 226,398 thousand yen in the same period of the previous fiscal year) and loss of 120,720 thousand yen (compared with profit of 227,583 thousand yen in the same period of the previous fiscal year) for the six months ended June 30, 2021. In addition, As an upfront investment, the steady progress in recruitment, and further acceleration of advertising and marketing activities have resulted in a negative impact on each level of profit below operating income.

The following describes the business results by each segment.

(Chatwork Business)

In the Chatwork business, the Company continued to demonstrate the advantages of Chatwork, its mainstay service, and endeavored to add new functions and cultivate customers. These efforts led to net revenue of 1,296,981 thousand yen (up 31.3% compared with the same period of the previous fiscal year) and segment loss of 166,496 thousand yen (compared with segment income of 138,512 thousand yen in the same period of the previous fiscal year).

Furthermore, the Chatwork business is the Company's mainstay business and all indirect costs, including the headquarters functions, are expensed to maintain and expand this business. Accordingly, the entire amount of the indirect costs is recorded as expenses in this business.

(Security Business)

With regard to the security business, the Company makes it a policy to not expand the business proactively. As a result, net revenue was 126,588 thousand yen (down 24.1% compared with the same period of the previous fiscal year) and segment profit stood at 46,961 thousand yen (down 45.9% compared with the same period of the previous fiscal year) for the security business. Furthermore, since the entire amount of indirect costs is recorded for the Chatwork business as stated above, the recorded segment profit of the security business is the amount obtained by deducting only the direct costs required for conducting the business, including advertising expenses, promotion expenses and outsourcing expenses, from the net revenue of the business.

(2) Explanation of Financial Position

(Assets)

Total assets as of June 30, 2021 increased by 82,185 thousand yen compared with the end of the previous fiscal year to 2,617,251 thousand yen. This was mainly due to an increase in intangible assets of 136,189 thousand yen.

(Liabilities)

Total liabilities as of June 30, 2021 increased by 109,202 thousand yen compared with the end of the previous fiscal year to 854,047 thousand yen. This was mainly due to an increase in advances received of 164,650 thousand yen and a decrease in accrued expenses of 62,553 thousand yen.

(Net Assets)

Net assets as of June 30, 2021 decreased by 27,017 thousand yen compared with the end of the previous fiscal year to 1,763,204 thousand yen. This was mainly due to an increase in share capital of 46,851 thousand yen, an increase in capital surplus of 46,851 thousand yen, and a decrease in retained earnings of 120,720 thousand yen.

(Cash Flows)

Cash and cash equivalents as of June 30, 2021 decreased by 186,825 thousand yen compared with the end of the previous fiscal year to 1,660,462 thousand yen. The status of each cash flow and their factors for the six months ended June 30, 2021 are as follows.

1) Cash flows from operating activities

Net cash used in operating activities amounted to 77,085 thousand yen (compared with net cash provided by operating activities of 259,719 thousand yen in the same period of the previous fiscal year). This was mainly due to profit before income taxes of 118,814 thousand yen, an increase in advances received of 164,650 thousand yen.

2) Cash flows from investing activities

Net cash used in investing activities amounted to 153,356 thousand yen (up 99.1% compared with the same period of the previous fiscal year). This was mainly due to the purchase of intangible assets of 154,180 thousand yen.

3) Cash flows from financing activities

Net cash provided by financing activities was 43,501 thousand yen (compared with net cash used in financing activities of 72 thousand yen in the same period of the previous fiscal year). This was mainly due to proceeds from issuance of shares of 43,950 thousand yen.

(3) Explanation of Future Forecast Information Including Earnings Forecast

Our company is planning to shift to consolidated financial statements from the third quarter of the fiscal year ending December 31, 2021.

In our business forecast for the current fiscal year, we have targeted an overall sales growth of 30% or more compared to the previous fiscal year and a growth of 35% or more in the Chatwork business.

In the first half of the fiscal year ending December 31, 2021, we have continued to grow steadily. We expect overall sales for the fiscal year ending December 31, 2021 to increase by between +37% and +40% compared to the previous fiscal year, and Chatwork business sales to increase by between +45% and +48% compared to the previous fiscal year, due to measures such as growth in the number of Chatwork IDs through aggressive advertising investment, revisions to pricing and billing systems, and the acquisition of the cloud storage business in the third quarter and beyond.

As for the range, we assume fluctuations in ARPU due to advertising investment, fluctuations in the number of IDs charged due to revisions in the billing system, price revisions, and cross-selling in the platform business.

The details of the financial forecast are as follows.

Revenue	3,319 million yen to 3,392 million yen	(YoY)	+37.0% to +40.0%
Chatwork Business revenue	3,089 million yen to 3,153 million yen	(YoY)	+45.0% to +48.0%
Gross profit	2,248 million yen to 2,320 million yen	(YoY)	+29.0% to +33.2%
Operating profit (loss)	(938) million yen to (815) million yen	(YoY)	—
Ordinary profit (loss)	(941) million yen to (818) million yen	(YoY)	—
Profit (loss)	(937) million yen to (814) million yen	(YoY)	—

(Note)The above forecasts are based on information available to the Company at this time, and actual results may differ from these forecasts due to various factors in the future.

2. Quarterly Financial Statements and Significant Notes Thereto

(1) Quarterly Balance Sheet

(Unit: thousand yen)

	As of December 31, 2020	As of June 30, 2021
Assets		
Current assets		
Cash and deposits	1,847,288	1,660,462
Accounts receivable - trade	197,764	210,068
Other	167,000	271,539
Total current assets	2,212,053	2,142,071
Non-current assets		
Property, plant and equipment	70,518	60,306
Intangible assets	167,195	303,385
Investments and other assets		
Other	85,299	111,488
Total investment and other assets	85,299	111,488
Total non-current assets	323,013	475,180
Total assets	2,535,066	2,617,251
Liabilities		
Current liabilities		
Accounts payable - other	161,740	252,307
Accrued expenses	111,108	48,555
Income taxes payable	51,772	16,278
Advances received	328,939	493,589
Other	91,284	43,316
Total current liabilities	744,844	854,047
Total liabilities	744,844	854,047
Net assets		
Shareholders' equity		
Share capital	1,409,930	1,456,781
Capital surplus	1,395,790	1,442,641
Retained earnings	(1,015,456)	(1,136,176)
Treasury stock	(42)	(42)
Total shareholders' equity	1,790,222	1,763,204
Total net assets	1,790,222	1,763,204
Total liabilities and net assets	2,535,066	2,617,251

(2) Quarterly Statement of Income (cumulative)
For the six months ended June 30, 2021

(Unit: thousand yen)

	Six months ended June 30, 2020	Six months ended June 30, 2021
Revenue	1,154,624	1,423,569
Cost of revenue	304,650	388,796
Gross profit	849,973	1,034,772
Selling, general and administrative expenses	624,712	1,154,307
Operating profit (loss)	225,261	(119,534)
Non-operating income		
Interest income	6	8
Gain on sales of non-current assets	1,138	638
Foreign exchange gains	—	774
Miscellaneous income	—	49
Other	22	—
Total non-operating income	1,166	1,471
Non-operating expenses		
Share issuance costs	30	448
Miscellaneous loss	—	302
Total non-operating expenses	30	751
Ordinary profit (loss)	226,398	(118,814)
Profit before income taxes (loss)	226,398	(118,814)
Income taxes - current	36,907	1,905
Income taxes - deferred	(38,092)	—
Total income taxes	(1,184)	1,905
Profit (loss)	227,583	(120,720)

(3) Quarterly Statement of Cash Flows

(Unit: Thousand yen)

	Six months ended June 30, 2020	Six Months ended June 30, 2021
Cash flows from operating activities		
Profit before income taxes	226,398	(118,814)
Depreciation	13,399	30,493
Share-based remuneration expenses	1,863	10,197
Amortization of leasehold and guarantee deposits	623	652
Interest income	(6)	(8)
Share issuance costs	30	448
Foreign exchange losses (gains)	—	(114)
Loss (gain) on sales of non-current assets	(1,138)	(638)
Decrease (increase) in trade receivables	(51,076)	(12,304)
Increase (decrease) in accounts payable-other	36,208	88,219
Increase (decrease) in accrued expenses	3,945	(62,553)
Increase (decrease) in income taxes payable	(711)	(4,838)
Increase (decrease) in advances received	81,080	164,650
Other	(25,487)	(139,922)
Subtotal	285,128	(44,533)
Interest received	6	8
Income taxes paid	(25,415)	(32,560)
Net Cash provided by (used in) operating activities	259,719	(77,085)
Cash flows from investing activities		
Purchase of property, plant and equipment	(17,716)	(281)
Proceeds from sales of property, plant and equipment	18,454	977
Purchase of intangible assets	(77,741)	(154,180)
Payments of guarantee deposits	(36)	—
Proceeds from refund of guarantee deposits	—	129
Net cash provided by (used in) investing activities	(77,039)	(153,356)
Cash flows from financing activities		
Payment for issuance of new shares	(30)	(448)
Proceeds from issuance of shares	—	43,950
Purchase of treasury shares	(42)	—
Net cash provided by (used in) financing activities	(72)	43,501
Effect of exchange rate change on cash and cash equivalents	—	114
Net increase (decrease) in cash and cash equivalents	182,607	(186,825)
Cash and cash equivalents at beginning of term	1,531,768	1,847,288
Cash and cash equivalents at end of term	1,714,376	1,660,462

(4) Notes on Quarterly Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Substantial Changes in the Amount of Shareholders' Equity)

Not applicable.

(Segment Information, Etc.)

[Segment information]

Six months ended June 30, 2020

Information on Revenue and Profit or Loss Amounts by Reportable Segment

(Unit: thousand yen)

	Reportable segment			Total (Note)
	Chatwork business	Security business	Total	
Revenue				
Revenue to outside customers	987,946	166,678	1,154,624	1,154,624
Intersegment net revenue or transfers	—	—	—	—
Total	987,946	166,678	1,154,624	1,154,624
Segment profit (loss)	138,512	86,748	225,261	225,261

(Note) 1. Segment profit has been adjusted with the operating profit in the quarterly financial statements.

2. The Chatwork business is the Company's mainstay business and all indirect costs, including the headquarters functions, are expensed to maintain and expand this business. Accordingly, the entire amount of indirect costs is recorded as expenses in the Chatwork business.

Six months ended June 30, 2021

Information on Revenue and Profit or Loss Amounts by Reportable Segment

(Unit: thousand yen)

	Reportable segment			Total (Note)
	Chatwork business	Security business	Total	
Revenue				
Revenue to outside customers	1,296,981	126,588	1,423,569	1,423,569
Intersegment net revenue or transfers	—	—	—	—
Total	1,296,981	126,588	1,423,569	1,423,569
Segment profit (loss)	(166,496)	46,961	(119,534)	(119,534)

(Note) 1. Segment profit has been adjusted with the operating loss in the quarterly financial statements.

2. The Chatwork business is the Company's mainstay business and all indirect costs, including the headquarters functions, are expensed to maintain and expand this business. Accordingly, the entire amount of indirect costs is recorded as expenses in the Chatwork business.

(Significant Subsequent Events)

(Business Combination through Acquisition)

At a meeting on June 22, 2021, Chatwork's Board of Directors resolved to make Chatwork Storage Technologies, Inc. a consolidated subsidiary of the Company, which was established as a result of the spin-off of the cloud storage business from Startia Raise Co. Share acquisition procedures based on this resolution concluded on July 1, 2021.

(1) Overview of the business combination

1) Name and business details of the acquired company

Name of the acquired company	Chatwork Storage Technologies Co., Ltd.
Business details	Provides "Secure SAMBA" cloud-based online storage

2) Primary reasons for the business combination

The Company has developed and sells Chatwork, a business chat application designed to "take everyone's working style a step forward," and based on the mission of "making work more fun and creative." We are currently working toward the objectives outlined in our medium-term business plan. Namely, in the medium term we intend to become the leader in business chat for small and medium-sized companies. Over the long term, we aim to become a business super app. We are pursuing three strategies to achieve this aim: the Product-Led Growth Strategy, the Horizontal + Vertical Strategy, and the DX Solution Strategy.

Secure SAMBA has a high degree of affinity with open platforms, which is one of Chatwork's defining characteristics. This business combination will enable us to integrate the two services, which should help expand our offerings with a view toward our long-term goal of becoming a business super app. In addition, both services primarily target small and medium-sized companies. The combination should help to expand each service's customer base, thereby generating synergies by contributing to earnings and cost efficiencies.

3) Date of the business combination

July 1, 2021

4) Legal form of the business combination

Acquisition of shares for cash consideration

5) Company name after the business combination

Unchanged

6) Percentage of voting rights acquired

Percentage of voting rights acquired on the date of the business combination: 51%

7) Main grounds leading to the decision to acquire the company

To acquire the shares for cash consideration

(2) Amount and type of consideration for company or business acquisition

Cash and deposits paid for acquisition	¥453,900,000
Cost of acquisition	¥453,900,000

(3) Amount of goodwill generated, reason for generation, and amortization method and period

Undetermined at present

(Increase of Subsidiary's Capital)

At a meeting on June 22, 2021, Chatwork's Board of Directors resolved to increase the amount of capital of Chatwork Storage Technologies Co., Ltd. In accordance with this resolution, the Company concluded payments to increase the Subsidiary's amount of capital on July 2, 2021.

(1) Reason for increase

To reinforce the financial base of the Subsidiary as it commences operations

(2) Overview of the subsidiary whose capital increased

1) Name	Chatwork Storage Technologies Co., Ltd.
2) Location	2-3-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo
3) Name and position of representative	Shoji Fukuda, representative director
4) Business	Provides Secure SAMBA cloud-based online storage
5) Capital	¥1,000,000 (before increase)
6) Established	July 2021
7) Ownership	51% (before increase)

(3) Overview of increase

1) Capital	¥56,000,000(after increase)
2) Amount paid in by the Company	¥56,100,000
3) Date of payment	July 2, 2021
4) Ownership	51%(after increase)

(Large-Scale Borrowings)

At a meeting on June 22, 2021, Chatwork's Board of Directors resolved to borrow from a financial institution the cash required to acquire the shares of Chatwork Storage Technologies Co., Ltd. Based on this resolution, the company signed a loan agreement with Sumitomo Mitsui Banking Corporation and took out a loan on July 1, 2021. An overview of the loan details is provided below.

(1) Lender	Sumitomo Mitsui Banking Corporation
(2) Loan amount	¥510,000,000
(3) Interest rate	Base interest rate + spread
(4) Loan date	July 1, 2021
(5) Loan period	Five years
(6) Collateral	Unsecured
(7) Financial covenants	

1) The company shall not record operating losses, ordinary losses, or net losses in its consolidated income statements for any two consecutive fiscal years from the fiscal year ending December 31, 2021.

2) Unless approved in advance and in writing by Sumitomo Mitsui Banking Corporation, Chatwork's percentage of ownership in Chatwork Storage Technologies Co., Ltd. shall not fall below 51.0% (including indirect ownership and potential shares).