

Translation

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Summary of Financial Results for the Nine Months Ended September 30, 2021 (Japanese GAAP) (Consolidated)



November 12, 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

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Scheduled date to file quarterly securities report : November 12, 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. Consolidated financial results for the nine months ended September 30, 2021

(1) Consolidated business results (from January 1, 2021 to September 30, 2021)

(% indicate year-on-year changes)

	Revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended September 30, 2021	2,315	—	(340)	—	(342)	—	(341)	—
Nine months ended September 30, 2020	—	—	—	—	—	—	—	—

(Note) Comprehensive income (millions of yen)

Nine months ended September 30, 2021: (344) (—%) Nine months ended September 30, 2020: (—) (—%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2021	(9.22)	—
Nine months ended September 30, 2020	—	—

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

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2021	3,139	1,639	49.5
As of December 31, 2020	—	—	—

(Reference) Equity As of September 30, 2021 1,552 million yen As of December 31, 2020 — 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. Consolidated earnings forecast for fiscal year ending December 31, 2021 (from January 1, 2021 to December 31, 2021)

(% indicate year-on-year changes)

	Revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	3,368	38.9	(761)	—	(764)	—	(762)	—	(20.59)

(Note) Changes from earnings forecast most recently announced : Yes

*Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation) : No

(2) Application of special accounting methods for preparing quarterly consolidated financial statements : No

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

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

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

3) Changes in accounting estimates : No

4) Restatement : No

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

- 1) Number of shares issued and outstanding at the end of the period (including treasury shares)
- 2) Number of treasury shares at end of the period
- 3) Average number of shares during the period (for the nine months ended September 30, 2021)

As of September 30,2021	37,124,187 shares	As of December 31, 2020	36,880,640 shares
As of September 30,2021	41 shares	As of December 31, 2020	41 shares
Nine months ended September 30,2021	37,042,534 shares	Nine months ended September 30, 2020	36,612,754 shares

* 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 Consolidated Earnings Forecast.”

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Business Results

Business results

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

In addition, we made Chatwork Storage Technologies Co., Ltd. a consolidated subsidiary for the purpose of expanding our services to realize our long-term vision of a Business Super Apps.

As a result, the Company achieved net revenue of 2,315,518 thousand yen, operating loss of 340,872 thousand yen, ordinary loss of 342,056 thousand yen and loss attributable to owners of parent of 341,599 thousand yen for the nine months ended September 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 Segment)

In the Chatwork segment, 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 2,141,687 thousand yen and segment loss of 391,443 thousand yen.

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

(Security Segment)

With regard to the security segment, the Company makes it a policy to not expand the business proactively. As a result, net revenue was 173,830 thousand yen and segment profit stood at 50,570 thousand yen. Furthermore, since the entire amount of indirect costs is recorded for the Chatwork segment as stated above, the recorded segment profit of the security segment is the amount obtained by deducting only the direct costs required for conducting the segment, including advertising expenses, promotion expenses and outsourcing expenses, from the net revenue of the segment.

(2) Explanation of Financial Position

(Assets)

Total assets as of September 30, 2021 were 3,139,123 thousand yen. The main items were cash and deposits of 1,360,415 thousand yen and goodwill of 406,138 thousand yen.

(Liabilities)

Total liabilities as of September 30, 2021 were 1,499,210 thousand yen. The main items were advances received of 638,897 thousand yen and long-term borrowings of 382,500 thousand yen.

(Net Assets)

Net assets as of September 30, 2021 were 1,639,913 thousand yen. The main items were share capital of 1,462,055 thousand yen and 1,447,915 thousand yen.

(3) Explanation of Future Forecast Information Including Consolidated Earnings Forecast

In the nine months ended September 30, 2021, due to the growth in the number of Chatwork paying IDs, the revision of the billing system, the acquisition of the cloud storage business, and other measures, all revenue and profits are expected to be near or above the upper limit of the previously disclosed earnings forecast.

Based on the third quarter, overall revenue is expected to increase by 38.9% compared to the previous fiscal year, and revenue in the Chatwork segment is expected to increase by 47.6% compared to the previous fiscal year.

The details of the earnings forecast are as follows.

Revenue	3,368 million yen	(YoY)	+38.9%
Chatwork Segment revenue	3,147 million yen	(YoY)	+47.6%
Gross profit	2,357 million yen	(YoY)	+33.4%
Operating profit (loss)	(761) million yen	(YoY)	—
Ordinary profit (loss)	(764) million yen	(YoY)	—
Profit (loss) attributable to owners of parent	(762) 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 Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)	
As of September 30, 2021	
Assets	
Current assets	
Cash and deposits	1,360,415
Accounts receivable - trade	301,635
Prepaid expenses	405,435
Other	89,203
Allowance for doubtful accounts	(411)
Total current assets	2,156,278
Non-current assets	
Property, plant and equipment	57,909
Intangible assets	
Goodwill	406,138
Other	412,951
Total intangible assets	819,090
Investments and other assets	105,845
Total non-current assets	982,845
Total assets	3,139,123
Liabilities	
Current liabilities	
Accounts payable - other	264,145
Accrued expenses	50,927
Income taxes payable	9,099
Advances received	638,897
Current portion of long-term borrowings	102,000
Other	51,640
Total current liabilities	1,116,710
Non-current liabilities	
Long-term borrowings	382,500
Total non-current liabilities	382,500
Total liabilities	1,499,210
Net assets	
Shareholders' equity	
Share capital	1,462,055
Capital surplus	1,447,915
Retained earnings	(1,357,056)
Treasury stock	(42)
Total shareholders' equity	1,552,873
Non-controlling interests	87,039
Total net assets	1,639,913
Total liabilities and net assets	3,139,123

(2) Quarterly Consolidated Statement of Income (cumulative) and Quarterly Consolidated Statement of Comprehensive Income (cumulative)

For the nine months ended September 30, 2021

Quarterly Consolidated Statement of Income (cumulative)

(Unit: thousand yen)

	Nine months ended September 30, 2021
Revenue	2,315,518
Cost of revenue	684,686
Gross profit	1,630,831
Selling, general and administrative expenses	1,971,704
Operating profit (loss)	(340,872)
Non-operating income	
Interest income	16
Foreign exchange gains	1,240
Miscellaneous income	102
Total non-operating income	1,358
Non-operating expenses	
Interest expenses	1,406
Share issuance costs	833
Miscellaneous loss	302
Total non-operating expenses	2,542
Ordinary profit (loss)	(342,056)
Extraordinary income	
Gain on sales of non-current assets	638
Total extraordinary profit	638
Profit (loss) before income taxes	(341,418)
Income taxes - current	2,924
Total income taxes	2,924
Profit (loss)	(344,342)
Profit (loss) attributable to non-controlling interests	(2,743)
Profit (loss) attributable to owners of parent	(341,599)

Quarterly Consolidated Statement of Comprehensive Income (cumulative)

(Unit: thousand yen)

	Nine months ended September 30, 2021
Profit (loss)	(344,342)
Other comprehensive income	
Comprehensive income	(344,342)
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	(341,599)
Comprehensive income attributable to non-controlling interests	(2,743)

(3) Notes on Quarterly Consolidated 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]

Nine months ended September 30, 2021

1) Information on Revenue and Profit or Loss Amounts by Reportable Segment

(Unit: thousand yen)

	Reportable segment			Total (Note)
	Chatwork segment	Security segment	Total	
Revenue				
Revenue to outside customers	2,141,687	173,830	2,315,518	2,315,518
Intersegment net revenue or transfers	—	—	—	—
Total	2,141,687	173,830	2,315,518	2,315,518
Segment profit (loss)	(391,443)	50,570	(340,872)	(340,872)

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

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

2) Matters related to changes in reportable segments, etc.

The Company reorganized its business segments by acquiring the shares of Chatwork Storage Technologies Co., Ltd. and making it a consolidated subsidiary. Effective from the nine months ended September 30, 2021, the Company has changed the names of its reportable segments from "Chatwork Business" and "Security Business" to "Chatwork Segment" and "Security Segment". This change only involves a change in the name of the reporting segment and has no impact on the segment information.

3) Information on Revenue and Profit or Loss Amounts by Reportable Segment

Significant changes in the amount of goodwill

In the chatwork business segment, goodwill was generated as a result of the acquisition of shares in Chatwork Storage Technologies Co., Ltd., which became a consolidated subsidiary. The amount of increase in goodwill due to this event was 416,552 thousand yen in the nine months ended September 30, 2021.

(Business Combinations, Etc.)

Business Combination through Acquisition

1) Overview of the business combination

i) 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

ii) 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.

iii) Date of the business combination

July 1, 2021

iv) Legal form of the business combination

Acquisition of shares for cash consideration

v) Company name after the business combination

Unchanged

vi) Percentage of voting rights acquired

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

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

To acquire the shares for cash consideration

2) Quarterly consolidated period for which the company's business is included in the quarterly consolidated income statements

From July 1, 2021 to September 30, 2021

3) 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

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

i) Amount of goodwill generated

¥416,552,000

The amount of goodwill is calculated tentatively, as the allocation of acquisition costs has not been completed as of the end of the third quarter of the current fiscal year.

ii) Reason for generation

Goodwill was generated due to the expectation of excess earning power resulting from future business development.

iii) Amortization period

Straight-line amortization over 10 years

(Significant Subsequent Events)

Not applicable.