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ExaWizards Inc. (TSE 4259)
Consolidated Financial Results for the Nine Months Ended December 31, 2021(Unaudited)

Stock exchange listing: Tokyo Stock Exchange

Code number: 4259

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Consolidated Operating Results

(Amounts are rounded down to the nearest million yen)

(In millions of yen, unless otherwise stated)	Nine Months Ended December 31		% Change
	2020	2021	
Revenue	-	3,287	-
Operating profit	-	(357)	-
Ordinary profit	-	(352)	-
Net profit attributable to owners of parent	-	(395)	-
Basic EPS (yen)	-	(5.22)	-
Diluted EPS (yen)	-	-	-
Comprehensive income	-	(414)	-

(Note 1) The figures for the nine months ended December 31, 2020 and the year-on-year rates of changes for the nine months ended December 31, 2021 are not disclosed, as the Company did not prepare consolidated financial statements for the nine months ended December 31, 2020.

(Note 2) Diluted EPS is not stated because, although potential shares exist, basic loss per share was recorded.

(Note 3) On August 28, 2021, the Company conducted a 100-for-1 stock split. Basic EPS was calculated assuming that the stock split was conducted at the beginning of the fiscal year ending March 31, 2021.

Consolidated Financial Position

(In millions of yen, unless otherwise stated)	As of March 31, 2021	As of December 31, 2021
Total assets	3,686	7,583
Net assets	2,383	6,392
Equity ratio	64.6%	83.4%
Equity	2,382	6,324

Dividends

(In yen, unless otherwise stated)	FY2020	FY2021	FY2021 (Forecast)
At the end of Q1	-	-	-
At the end of Q2	-	-	-
At the end of Q3	-	-	-
At the end of Q4	-	-	-
Total	-	-	-

(Note)Revisions to the forecasts of cash dividends most recently announced: No

Consolidated Financial Results Forecasts for FY2021

(In millions of yen, unless otherwise stated)	FY2021 (Forecast)	year over year % change
Revenue	4,738	81.3
Operating profit	(180)	-
Ordinary profit	(75)	-
Net profit attributable to owners of parent	(95)	-
Basic EPS (yen)	(1.24)	-

(Note)Revisions to the Consolidated Financial Results Forecasts most recently announced: No

Changes in Significant Subsidiaries Resulting from Change in Scope of Consolidation

Increase : Xware Corporation, VisionWiz Inc. and Exa Homecare Inc.

Decrease: QINGDAO EXAWIZARDS ELDERLY CARE&TECHNOLOGY CO.,LTD

Application of special accounting treatments for preparing the quarterly consolidated financial statements

There has been no change.

Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to revision of accounting standards: Yes

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

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(Note) For details, please refer to " 2. Quarterly Consolidated Financial Statements and Primary Notes (3) Notes to the quarterly consolidated financial statements (Change in Accounting Policy)".

Number of Issued Shares - Common Stock

	As of March 31, 2021	As of December 31, 2021
Number of issued shares including treasury stock	75,308,000	79,853,400
Number of treasury stock	-	-
	Nine Months Ended December 31, 2020	Nine Months Ended December 31, 2021
Average number of shares during the period	-	75,813,044

(Note 1) On August 28, 2021, the Company conducted a 100-for-1 stock split. "Number of issued shares" and "Average number of shares during the period" were calculated assuming that the stock split was conducted at the beginning of the fiscal year ending March 31, 2021.

(Note 2) "Average number of shares during the period" for the nine months ended December 31, 2020 is not disclosed, as the Company did not prepare consolidated financial statements for the nine months ended December 31, 2020.

Supplementary Information

- Quarterly Consolidated Financial Results are exempt from quarterly review conducted by certified public accountants or audit firms.
- A full set of materials is posted on <https://exawizards.com/en/ir>
- Disclaimer
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Table of Contents

1. Qualitative Information Regarding Results for the Period

(1) Explanation of Operating Results	4
(2) Explanation of Financial Position	5
(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements	5

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets	6
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	7
Quarterly Consolidated Statements of Income	7
Quarterly Consolidated Statements of Comprehensive Income	8
(3) Notes to the quarterly consolidated financial statements	9
Going Concern Assumption	9
Notes on significant changes in the amount of shareholders' equity	9
Change in accounting policy	9
Segment information	10

1. Qualitative Information Regarding Results for the Period

(1) Explanation of Operating Results

Overall

In the AI Platform segment, we aim to discover industrial and social issues in various industries and to innovate them through the continuous resolution of client's issues, based on our mission of "Solving social issues through Artificial Intelligence for future generations". In the AI Products segment, we provide a wide range of customers with AI software that can be immediately used in business with minimal additional adjustments, with the aim of solving social issues.

In the field of Digital Transformation (DX) and adoption of AI applications, where our group is developing the business, there is a growing appetite for corporate investment to promote DX, and the business environment continues to be favorable for both the AI Platform segment and the AI Products segment, with strong expectations for new orders from client companies.

Consolidated Results of Operations

Revenue:

Consolidated net sales for the first three quarters of the current fiscal year totaled ¥3,287,530 thousand. As a result of working with several major clients on DX support with AI utilization and innovation through AI projects, the unit price per customer increased, especially for long term clients (Note 1). In addition, sales of Xware Corporation ("Xware"), which became a subsidiary of the Company, is consolidated from May 2021.

COGS, Gross Profit:

Cost of sales for the first three quarters of the current fiscal year totaled ¥1,251,334 thousand. The main elements were personnel expenses, etc. In addition, due to the acquisition of Xware as a subsidiary, the personnel expenses of this company were included. As a result of the above, gross profit for the first three quarters of the current fiscal year was ¥2,036,195 thousand, and the gross profit margin was 61.9%.

SG&A, Operating Profit:

Selling, general and administrative expenses for the first three quarters of the current fiscal year totaled ¥2,393,452 thousand. The main elements are personnel expenses, outsourcing expenses, and research and development expenses.

As a result of the above, operating loss for the first three quarters of the current fiscal year was ¥357,256 thousand.

Non-Operating Income and Loss, Ordinary Profit:

Non-operating income for the first three quarters of the current fiscal year totaled ¥59,798 thousand. The main component was subsidy income. Non-operating expenses totaled ¥54,830 thousand. The main component was listing-related expenses.

As a result of the above, ordinary loss for the first three quarters of the current fiscal year was ¥352,287 thousand.

Extraordinary Income and Loss, Profit attributable to owners of Parent:

Loss before income taxes and minority interests for the first three quarters of the current fiscal year totaled ¥398,115 thousand. The main component of extraordinary income/loss was a loss on liquidation of subsidiaries and affiliates of ¥39,436 thousand, which was recorded as expenses related to the transfer of equity interests in a Chinese subsidiary and the termination of operations.

Net loss attributable to shareholders of the parent company for the first three quarters of the current fiscal year was ¥395,500 thousand, due to the record of ¥11,896 thousand as total income taxes.

(Note 1) Continuous revenue from the clients that ExaWizards maintains its contract for consecutive 4 quarters and more

(Note 2) The figures for the nine months ended December 31, 2020 and the year-on-year rates of changes for the nine months ended December 31, 2021 are not disclosed, as the Company did not prepare consolidated financial statements for the nine months ended December 31, 2020.

Results of Operations by Segment

AI Platform:

In the first three quarters of the current fiscal year, we worked with several major clients on creating innovations through AI projects that utilize image and data analysis technologies utilizing machine learning, deep learning, and statistics. Strong corporate demand for AI-based DX support also provided a boost, and unit prices per customer increased, especially among long-term clients.

As a result, net sales were ¥2,863,780 thousand, gross profit was ¥1,892,351 thousand, gross profit margin was 66.1%, operating income was ¥401,494 thousand, and the ratio of revenue from long term clients to net sales was 69.2%.

AI Products:

In the first three quarters of the current fiscal year, in addition to expanding sales of existing products, we also worked to develop new services based on the knowledge gained through the AI Platform segment.

In the DX AI Products group, the number of companies introducing "exaBase DX Assessment & Learning" for assessing and training corporate DX personnel and "exaBase Prediction & Analysis" for data utilization and analysis increased.

In the Social AI Products group, sales of "CareWiz Toruto" and "CareWiz Hanasuto" expanded through collaboration with their respective partner companies.

On the other hand, personnel costs and other expenses increased due to an increase in the number of employees in line with organizational expansion and upfront investments in product development.

As a result, net sales were ¥423,749 thousand, gross profit was ¥143,844 thousand, gross profit margin was 33.9%, and operating loss was ¥758,751 thousand.

(Note 3) The figures for the nine months ended December 31, 2020 and the year-on-year rates of changes for the nine months ended December 31, 2021 are not disclosed, as the Company did not prepare Results of Operations by Segment for the nine months ended

December 31, 2020.

(2) Explanation of Financial Position

Assets

As of the end of the third quarter ended December 31, 2021, total assets amounted to ¥7,583,141 thousand, ¥3,896,960 thousand increase since the end of the previous fiscal year. This was primarily due to ¥3,196,238 thousand increase in cash and deposits due to activities including the issuance of new shares associated with listing on the Tokyo Stock Exchange Mothers, ¥225,210 thousand increase in goodwill resulting from inclusion of subsidiaries in consolidation and ¥199,599 thousand increase in accounts receivable - trade due to the growth in net sales.

Liabilities

As of the end of the third quarter ended December 31, 2021, total liabilities amounted to ¥1,190,722 thousand, ¥112,164 thousand decrease since the end of the previous fiscal year. This was primarily due to ¥500,000 thousand decrease in short-term borrowings due to repayments, ¥94,808 thousand increase in accrued expenses, ¥65,317 thousand increase in accounts payable ¥55,295 thousand increase in other current liabilities and ¥47,781 thousand increase in retirement benefit liability due to inclusion of Xware in consolidation and business expansion.

Net assets

As of the end of the third quarter ended December 31, 2021, net assets amounted to ¥6,392,419 thousand, ¥4,009,125 thousand increase since the end of the previous fiscal year. This was primarily due to increases of ¥2,170,899 thousand in share capital and capital surplus respectively due to activities including the issuance of new shares associated with listing on the Tokyo Stock Exchange Mothers and others. As a result, equity ratio increased from 64.6% as of the end of the previous fiscal year to 83.4% as of the end of the third quarter ended December 31, 2021.

(3) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Statements

The forecasts of consolidated financial results for the fiscal year ending May 31, 2022, have not changed from the forecast announced on December 23, 2021.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(In thousands of yen)	As of March 31, 2021	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	2,337,698	5,533,937
Accounts receivable - trade	603,525	803,125
Other	140,579	93,315
Total current assets	3,081,804	6,430,378
Non-current assets		
Property, plant and equipment	71,194	136,303
Intangible assets		
Goodwill	-	225,210
Software	392,050	540,688
Other	-	151
Total intangible assets	392,050	766,050
Investments and other assets	141,131	250,408
Total non-current assets	604,376	1,152,763
Total assets	3,686,180	7,583,141

(In thousands of yen)	As of March 31, 2021	As of December 31, 2021
Liabilities and net assets		
Liabilities		
Current liabilities		
Short-term borrowings	500,000	-
Current portion of bonds payable	-	6,000
Current portion of long-term borrowings	15,000	32,086
Accounts payable - other	185,279	250,597
Accrued expenses	177,896	272,704
Income tax payables	6,187	49,406
Other	114,317	169,613
Total current liabilities	998,681	780,408
Non-current liabilities		
Bonds payable	-	3,000
Long-term borrowings	300,000	316,216
Retirement benefit liability	-	47,781
Asset retirement obligations	-	39,681
Other	4,204	3,635
Total non-current liabilities	304,204	410,313
Total liabilities	1,302,886	1,190,722
Net assets		
Shareholders' equity		
Share capital	100,000	2,270,899
Capital surplus	2,885,349	5,056,248
Retained earnings	(606,716)	(1,002,216)
Total shareholders' equity	2,378,633	6,324,931
Accumulated other comprehensive income		
Foreign currency translation adjustment	4,061	-
Total accumulated other comprehensive income	4,061	-
Share acquisition rights	599	3,791
Non-controlling interests	-	63,696
Total net assets	2,383,294	6,392,419
Total liabilities and net assets	3,686,180	7,583,141

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(In thousands of yen)	Nine Months Ended December 31,	
	2021	
Net sales		3,287,530
Cost of sales		1,251,334
Gross profit		2,036,195
Selling, general and administrative expenses		2,393,452
Operating profit (loss)		(357,256)
Non-operating income		
Interest and dividend income		28
Subsidy income		58,564
Other		1,205
Total non-operating income		59,798
Non-operating expenses		
Interest expenses		5,095
Foreign exchange losses		3,995
Listing expenses		45,347
Other		392
Total non-operating expenses		54,830
Ordinary profit (loss)		(352,287)
Extraordinary losses		
Loss on retirement of non-current assets		2,659
Impairment losses		3,731
Loss on liquidation of subsidiaries and associates		39,436
Total extraordinary losses		45,827
Profit (loss) before income taxes		(398,115)
Income taxes – current		9,956
Income taxes – deferred		1,940
Total income taxes		11,896
Profit (loss)		(410,011)
Profit (loss) attributable to non-controlling interests		(14,511)
Profit (loss) attributable to owners of parent		(395,500)

Quarterly Consolidated Statements of Comprehensive Income

(In thousands of yen)	Nine Months Ended December 31, 2021
Profit (loss)	(410,011)
Other comprehensive income	
Foreign currency translation adjustment	(4,061)
Total other comprehensive income	(4,061)
Comprehensive income	(414,073)
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	(399,562)
Comprehensive income attributable to non-controlling interests	(14,511)

(3) Notes to the quarterly consolidated financial statements

Going Concern Assumption

Not applicable.

Notes on significant changes in the amount of shareholders' equity

The share capital and the capital surplus both received an addition of ¥2,164,900 thousand due to the new issuance of shares in association with the listing of the Company's common shares on the Tokyo Stock Exchange Mothers. The company has received payment on December 22, 2021, regarding the issuance of new shares through a book building process.

As a result, as of December 31, 2021, the share capital and capital surplus were ¥2,270,899 thousand, ¥5,056,248 thousand, respectively, including the new issuance of shares through the exercise of stock acquisition rights during the nine months ended December 31, 2021.

Change in accounting policy

(Application of Accounting Standard for Revenue Recognition, etc.)

The Group has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 31, 2020) and relevant revised ASBJ regulations effective from the beginning of the three months ended June 30, 2021, and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services.

As a result of this application, for some contracts where revenue was previously recognized at the time completion of acceptance inspection as stipulated in the contract, revenue has been recognized as a performance obligation is satisfied over a certain period of time. The Group selects input method to measure progress toward complete satisfaction of a performance obligation.

The application of the Accounting Standard for Revenue Recognition and relevant revised ASBJ regulations is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the three months ended June 30, 2021, was added to, or deducted from the opening balance of retained earnings of the three months ended June 30, 2021, and thus the new accounting policy was applied from such opening balance. However, in accordance with the methods stipulated in Paragraph 86 of the Accounting Standard for Revenue Recognition, the new accounting standard is not retrospectively applied to the contracts if almost all revenue arising from them was recognized prior to the beginning of the three months ended June 30, 2021, under the previous accounting methods. In addition, the Group has applied a method stipulated as the alternate (1) in Paragraph 86 of the Accounting Standard for Revenue Recognition, thereby modifications to the contracts that had been made prior to the beginning of the three months ended June 30, 2021 were accounted for based on terms and conditions that reflect all the modifications, and the resulting cumulative effect is added to or subtracted from retained earnings at the beginning of the three months ended June 30, 2021.

This change has no effect on retained earnings at the beginning of the nine months ended December 31, 2021, and a minimal effect on the consolidated statement of income for the nine months ended December 31, 2021.

Segment information

1. Information on the amount of sales and profit (loss) for each reportable segment

For the Nine Months Ended December 31, 2021

	AI Platform	AI Products	Total
Net sales			
Revenue from contracts with customers	2,863,780	423,749	3,287,530
Net sales to external customers	2,863,780	423,749	3,287,530
Intersegment revenue or transfers	-	-	-
Total	2,863,780	423,749	3,287,530
Segment profit (loss)	401,494	(758,751)	(357,256)

(Note) Total segment profit (loss) agrees with operating profit (loss) of quarterly consolidated statements of income.

2. Information on impairment loss of non-current assets or goodwill, etc. for each reportable segment

(Significant impairment losses)

Not applicable.

(Significant changes in the amount of goodwill)

In the AI Platform segment, goodwill was generated as a result of the acquisition of shares in Xware, which became a consolidated subsidiary for the three months ended June 30, 2021. The amount of increase in goodwill due to this event was ¥225,210 thousand in the nine months ended December 31, 2021.

(Significant gain on negative goodwill)

Not applicable.