

Translation

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Summary of Financial Results for the Three Months Ended March 31, 2022 (Japanese GAAP) (Consolidated)



May 13, 2022

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

Tel: 81-50-1791-0683

Scheduled date to file quarterly securities report : May 13, 2022

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 three months ended March 31, 2022

(1) Consolidated business results (from January 1, 2022 to March 31, 2022)

(% 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	%
Three months ended March 31, 2022	1,049	—	(137)	—	(134)	—	(119)	—
Three months ended March 31, 2021	—	—	—	—	—	—	—	—

(Note) Comprehensive income (millions of yen)

Three months ended March 31, 2022: (134) (—%) Three months ended March 31, 2021: (—) (—%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2022	(3.02)	—
Three months ended March 31, 2021	—	—

(Note) 1) Diluted earnings per share is not shown in the above table, because basic earnings per share is negative although there are potential shares.

2) As consolidated financial statements are being prepared from the nine months ended September 30, 2021, figures for the three months ended March 31, 2021 and percentage change from the previous fiscal year are not shown.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of March 31, 2022	5,108	3,289	63.2
As of December 31, 2021	5,168	3,402	64.3

(Reference) Equity As of March 31, 2022 3,227 million yen As of December 31, 2021 3,325 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, 2021	—	0.00	—	0.00	0.00
Year ended December 31, 2022	—	0.00	—	0.00	0.00
Fiscal year ending December 31, 2022 (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, 2022 (from January 1, 2022 to December 31, 2022)

Given the need to respond to competition and changes in the market environment and to make investment decisions flexibly during the year, we have adopted a policy of not disclosing specific monetary forecasts for the fiscal year ending December 31, 2022. That being said, we will continue to concentrate on achieving high levels of growth in revenue from the Chatwork segment, which remains our foremost management target. For the fiscal year ending December 31, 2022, we expect revenue from the Chatwork business to grow at 40% or more year on year. For the Company as a whole, we anticipate year-on-year revenue growth of 35% or more. For details, please refer to the attachment on page 3, entitled “1. Qualitative Information on Quarterly Financial Results (3) Explanation on Future Forecast Information Including Consolidated Earnings Forecast”.

*Notes

(1) Changes in significant subsidiaries during the period : 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, : Yes
etc.

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

3) Changes in accounting estimates : No

4) Restatement : No

For details, please refer to “Quarterly Consolidated Financial Statements and Significant Notes Thereto (3) Notes on Quarterly Consolidated Financial Statements (Changes in Accounting Policies)” on page 7 of the attached materials.

(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 three months ended March 31, 2022)

As of March 31, 2022	39,505,847 shares	As of December 31, 2021	39,425,840 shares
As of March 31, 2022	1,922 shares	As of December 31, 2021	877 shares
Three months ended March 31, 2022	39,469,043 shares	three months ended March 31, 2021	36,955,855 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 on 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 three months ended March 31, 2022, 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.

As a result, the Company achieved net revenue of 1,049,066 thousand yen, operating loss of 137,652 thousand yen, ordinary loss of 134,851 thousand yen and loss attributable to owners of parent of 119,177 thousand yen for the three months ended March 31, 2022. 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 985,263 thousand yen and segment loss of 154,759 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 63,803 thousand yen and segment profit stood at 17,106 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 on Financial Position

(Assets)

Total assets as of March 31, 2022 decreased by 59,518 thousand yen compared with the end of the previous fiscal year to 5,108,515 thousand yen. This was mainly due to a decrease in prepaid expenses of 121,240 thousand yen.

(Liabilities)

Total liabilities as of March 31, 2022 increased by 53,976 thousand yen compared with the end of the previous fiscal year to 1,819,048 thousand yen. This was mainly due to an increase in short-term borrowings of 300,000 thousand yen and a decrease in accounts payable - other of 182,771 thousand yen.

(Net Assets)

Net assets as of March 31, 2022 decreased by 113,495 thousand yen compared with the end of the previous fiscal year to 3,289,467 thousand yen. This was mainly due to a net loss attributable to owners of parent of 119,177 thousand yen. As a result, the equity ratio was 63.2% (64.3% at the end of the previous fiscal year).

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

For the fiscal year ending December 31, 2022, we will continue to make high levels of revenue growth in the Chatwork segment our topmost priority, as we believe this is the best way to enhance corporate value. As outlined above, we anticipate year-on-year revenue growth from the Chatwork segment of 40% or more. Assuming the operating environment will lead to a slight revenue decline in the Security segment, we are targeting an overall revenue growth of 35% or more year on year.

We aim to accelerate companywide growth by reinforcing the sales structure for our Chatwork service, stepping up platform development, and adding value to Chatwork through ongoing functionality enhancement. Given the need to respond to competition and changes in the market environment and to make investment decisions flexibly during the year, we have opted not to disclose specific monetary forecasts for profit categories at the operating profit and below.

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	As of December 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	3,200,053	3,196,120
Accounts receivable - trade	312,115	319,558
Prepaid expenses	446,392	325,152
Other	75,541	90,089
Allowance for doubtful accounts	(411)	(411)
Total current assets	4,033,692	3,930,509
Non-current assets		
Property, plant and equipment	45,514	33,636
Intangible assets		
Goodwill	318,894	310,502
Other	587,875	666,472
Total intangible assets	906,769	976,974
Investments and other assets	182,158	167,396
Total non-current assets	1,134,342	1,178,006
Total assets	5,168,034	5,108,515
Liabilities		
Current liabilities		
Accounts payable - other	447,048	264,276
Accrued expenses	93,002	69,820
Income taxes payable	23,276	12,092
Contract liabilities	—	626,062
Advances received	649,262	—
Provision for bonuses	—	10,800
Short-term borrowings	—	300,000
Current portion of long-term borrowings	102,000	102,000
Other	46,138	64,675
Total current liabilities	1,360,728	1,449,727
Non-current liabilities		
Long-term borrowings	365,500	331,500
Deferred tax liabilities	38,843	37,821
Total non-current liabilities	404,343	369,321
Total liabilities	1,765,072	1,819,048
Net assets		
Shareholders' equity		
Share capital	2,525,611	2,536,310
Capital surplus	2,511,471	2,522,170
Retained earnings	(1,711,645)	(1,830,822)
Treasury stock	(42)	(42)
Total shareholders' equity	3,325,394	3,227,615
Non-controlling interests	77,567	61,851
Total net assets	3,402,962	3,289,467
Total liabilities and net assets	5,168,034	5,108,515

(2) Quarterly Consolidated Statement of Income (cumulative) and Quarterly Consolidated Statement of Comprehensive Income (cumulative)
For the three months ended March 31, 2022

Quarterly Consolidated Statement of Income (cumulative)

	(Unit: thousand yen)
	Three months ended March 31, 2022
Revenue	1,049,066
Cost of revenue	295,641
Gross profit	753,425
Selling, general and administrative expenses	891,077
Operating profit (loss)	(137,652)
Non-operating income	
Interest income	9
Foreign exchange gains	3,593
Miscellaneous income	722
Total non-operating income	4,325
Non-operating expenses	
Interest expenses	1,523
Total non-operating expenses	1,523
Ordinary profit (loss)	(134,851)
Extraordinary income	
Gain on sales of non-current assets	461
Total extraordinary profit	461
Profit (loss) before income taxes	(134,389)
Income taxes - current	1,526
Income taxes - deferred	(1,022)
Total income taxes	504
Profit (loss)	(134,893)
Profit (loss) attributable to non-controlling interests	(15,716)
Profit (loss) attributable to owners of parent	(119,177)

Quarterly Consolidated Statement of Comprehensive Income (cumulative)

(Unit: thousand yen)

	Three months ended March 31, 2022
Profit (loss)	(134,893)
Other comprehensive income	
Comprehensive income	(134,893)
Comprehensive income attributable to	
Comprehensive income attributable to owners of parent	(119,177)
Comprehensive income attributable to non-controlling interests	(15,716)

(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.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

The Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter, "Revenue Recognition Standard"), etc. from the beginning of the first quarter of the current fiscal year, and recognized revenue at the amount expected to be received in exchange for the promised goods or services when the control of the said goods or services were transferred to the customer.

The adoption of this standard has mainly resulted in the following change: The initial fees received from customers at the time of signing a new contract were previously recorded as sales at a certain point in time; however, due to the adoption of the new standard, the initial fees will be recognized as part of the monthly usage fees and will be recorded over a fixed period of time.

The Company has followed the transitional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Standard. As such, the cumulative effect of retrospective application of the new accounting policy prior to the beginning of the first quarter of the current fiscal year is added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year, and the new accounting policy is applied from the said beginning balance. However, due to applying the method prescribed in paragraph 86 of the Revenue Recognition Standard, the new accounting policy was not applied retrospectively to contracts for which almost all revenues were recognized according to the previous treatment prior to the beginning of the first quarter of the current fiscal year.

As a result, during the first quarter of the fiscal year ending December 31, 2022, revenue decreased by 628 thousand yen, and operating loss, ordinary loss, and loss before income taxes each increased by 628 thousand yen. The new accounting policy did not have an impact on the balance of retained earnings at the beginning of the period.

Due to the application of the Revenue Recognition Standard, "advances received" which was presented in "current liabilities" in the consolidated balance sheet for the previous fiscal year is included in "contract liabilities" from the first quarter of the current fiscal year. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Revenue Recognition Standard, the Company has made no reclassification for the previous fiscal year based on the new presentation method. Furthermore, in accordance with the transitional treatment prescribed in Paragraph 28-15 of the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12, March 31, 2020), the Company has not provided information that breaks down revenue from contracts with customers for the three months ended March 31, 2021.

(Segment Information, Etc.)

[Segment information]

Three months ended March 31, 2022

1) Information on Revenue and Profit or Loss Amounts by Reportable Segment, and disaggregation of revenue

(Unit: thousand yen)

	Reportable segment			Total (Note)
	Chatwork segment	Security segment	Total	
Revenue				
Performance obligations satisfied at a point in time	42,173	63,803	105,976	105,976
Performance obligations satisfied over time	943,089	—	943,089	943,089
Revenue from contracts with customers	985,263	63,803	1,049,066	1,049,066
Other revenue	—	—	—	—
Revenue to outside customers	985,263	63,803	1,049,066	1,049,066
Intersegment net revenue or transfers	—	—	—	—
Total	985,263	63,803	1,049,066	1,049,066
Segment profit (loss)	(154,759)	17,106	(137,652)	(137,652)

(Note) 1. Segment profit has been adjusted with the operating loss 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.

As described in "Changes in Accounting Policies," the Company has applied the Accounting Standard for Revenue Recognition etc. from the beginning of the first quarter of the current fiscal year, and has changed its accounting method for revenue recognition. Therefore, the calculation method of profit or loss by business segment has been changed in the same manner.

As a result of this change, net sales of the Chatwork segment decreased 628 thousand yen and segment loss increased 628 thousand yen in the first quarter of the current fiscal year compared to the previous method.

(Significant Subsequent Events)

(Issuance of new shares as restricted stock compensation)

At a Board of Directors' meeting held on April 20, 2022, the Company resolved to issue new shares as restricted stock compensation (hereinafter, "the New Share Issuance").

Outline of issuance

(1) Payment date	May 20, 2022
(2) Type and number of shares to be issued	171,608 shares of common stock of the Company
(3) Issue price	542 yen per share
(4) Total amount of issue price	93,011,536 yen
(5) Amount to be capitalized	271 yen per share
(6) Total amount of capitalization	46,505,768 yen
(7) Scheduled allottees	Four directors of the Company: 104,647 shares Four employees of the Company: 66,961 shares
(8) Restricted period for transfer	From May 20, 2022 to April 30, 2025
(9) Purpose	The Company has introduced a restrict stock compensation plan to provide incentives to sustainably increase the Company's corporate value and shareholder value over the medium to long term and to further promote the alignment of values with shareholders.
(10) Other	The new share issuance is subject to the securities registration statement taking effect in accordance with the Financial Instruments and Exchange Act.