

Aug 14, 2023

ExaWizards Inc. (TSE 4259)
Consolidated Financial Results for the Three Months Ended June 30, 2023 (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)	Three Months Ended June 30		% Change
	2022	2023	
Revenue	1,196	1,302	8.9
Operating profit	(237)	(348)	-
Ordinary profit	(236)	(352)	-
Net profit attributable to owners of parent	(223)	(400)	-
Comprehensive income	(227)	(408)	-
Basic EPS (yen)	(2.77)	(4.90)	-
Diluted EPS (yen)	-	-	-

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

Consolidated Financial Position

(In millions of yen, unless otherwise stated)	As of March 31, 2023	As of June 30, 2023
Total assets	7,939	8,598
Net assets	6,618	5,315
Equity ratio	82.4%	61.0%

Dividends

(In yen, unless otherwise stated)	FY2022	FY2023	FY2024 (Forecast)
At the end of Q1	-	-	-
At the end of Q2	-	-	-
At the end of Q3	-	-	-
At the end of Q4	-	-	-
Total	-	-	-

Consolidated Financial Results Forecasts for FY2023

(In millions of yen, unless otherwise stated)	FY2023 (Forecast)	year over year % change
Revenue	8,500	52.0
Operating profit	(290)	-
EBITDA	600	

(Note)Revisions to the Consolidated Financial Results Forecasts most recently announced: Yes

Changes in Significant Subsidiaries Resulting from Change in Scope of Consolidation: Yes

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

- 1) Changes in accounting policies due to revision of accounting standards: No
- 2) Changes in accounting policies other than 1) above: No
- 3) Changes in accounting estimates: No
- 4) Retrospective restatement: No

Number of Issued Shares - Common Stock

	As of March 31, 2023	As of June 30, 2023
Number of issued shares including treasury stock	83,383,800	83,766,200
Number of treasury stock	100,300	2,586,200

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2023
Average number of shares during the period	80,838,800	83,693,800

Supplementary Information

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

Consolidated Results of Operations

Revenue:

Net sales for the consolidated fiscal year totaled ¥ 1,302 million (+8.9% year-on-year). This was mainly due to the number of customers increased in the AI Platform segment and the number of introductions of our services increased in the AI Product segment.

COGS, Gross Profit:

Cost of goods sold for the consolidated fiscal year totaled ¥661 million (+23.5% year-on-year). This was mainly due to an increase in personnel and software depreciation.

As a result of the above, gross profit for the consolidated fiscal year was ¥641 million (-3.0% year-on-year), and the gross profit margin was 49.2% (-6.0pt year-on-year).

SG&A, Operating Profit:

Selling, general and administrative expenses for the consolidated fiscal year totaled ¥989 million (+10.2% year-on-year). This was mainly due to an increase in personnel expenses.

As a result of the above, operating loss for the consolidated fiscal year was ¥348 million (operating loss of ¥237 million in the same period of the previous year).

Non-Operating Income and Loss, Ordinary Profit:

Non-operating income for the consolidated fiscal year totaled ¥0 million (non-operating income of ¥1 million in the same period of the previous year). Non-operating expenses totaled ¥4 million (non-operating expenses of ¥0 million in the same period of the previous year).

As a result of the above, ordinary loss for the consolidated fiscal year was ¥352 million (ordinary loss of ¥236 million in the same period of the previous year).

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

Loss before income taxes and minority interests for the consolidated fiscal year totaled ¥394 million (loss before income taxes and minority interest of ¥222 million in the same period of the previous year). An extraordinary losses of ¥42 million was recorded in the first quarter of the current fiscal year as a loss on liquidation of subsidiaries and associates. (Reference "Notice of Dissolution of Subsidiary" disclosed on May 11, 2023)

Net loss attributable to owners of the parent for the current fiscal year was ¥400 million (net loss attributable to owners of the parent of ¥223 million in the same period of the previous year).

Results of Operations by Segment

There is a change in the calculation method of segment results from the current consolidated fiscal year. For details, please refer to 2. Quarterly Consolidated Financial Statements and Primary Notes (3) Segment information.

The following statements are based on the assumption that the reference segment results for the previous fiscal year were recalculated as same method as the current consolidated fiscal year, and the differences are described based on the reference segment results for the previous fiscal year.

AI Platform:

In the current consolidated fiscal year, we continued to work with a number of major companies to create innovations through AI projects. The number of clients increased, supported by strong corporate demand for AI and DX support.

As a result, net sales totaled ¥1,119 million (+5.9% year-on-year), gross profit totaled ¥593 million (-4.6% year-on-year), gross profit margin was 53.0% (-5.8pt year-on-year), operating income totaled ¥220 million (-13.9% year-on-year), and the ratio of revenue from long term clients to net sales was 73.5%. (Note)

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

AI Products:

In the current consolidated fiscal year, in addition to expanding sales of existing products, we have been developing new services, including the use of generative AI, based on the knowledge gained from our AI Products segment.

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

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

In the meantime, recruitment expenses for hiring and advertising expenses increased in order to meet these demands.

As a result, net sales were ¥183 million (+31.8% year-on-year), gross profit was ¥53 million (+39.1% year-on-year), gross profit margin was 29.3% (+1.5pt year-on-year), and operating loss was ¥159 million (operating loss of ¥127 million in the same period of the previous year).

(2) Explanation of Financial Position

Assets

Total assets at the end of the current consolidated fiscal year, amounted to ¥ 8,598 million, ¥658 million increase since the end of the previous consolidated fiscal year. This was mainly due to cash and deposits decreased of ¥2,205 million, while increases of ¥2,271 million and ¥267 million in Goodwill and Investments and other assets, respectively.

Liabilities

Total liabilities at the end of the current consolidated fiscal year, amounted to ¥3,282 million, ¥1,961 million increase since the end of the previous consolidated fiscal year. This was due to increase of ¥1,000 million in short-term borrowings.

Net assets

Total net assets at the end of the current consolidated fiscal year, amounted to ¥5,315 million, ¥1,302 million decrease since the end of the previous consolidated fiscal year. This was mainly due to decrease of ¥924 million in treasury stock and ¥400 million in net loss attributable to owners of the parent for the current fiscal year, respectively.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statement

Based on the current performance trend and the impact of acquisition of shares of STADIUM Co., Ltd. (Reference "Notice of Acquisition of Shares of STADIUM Co., Ltd. " disclosed on June 30, 2023), the consolidated earnings forecast for the current fiscal year disclosed on May 11, 2023, has been changed as follows.

	Net Sales	Operating Profit	EBITDA
	Millions of Yen	Millions of Yen	Millions of Yen
Previous forecast (A) As of May 11, 2023	7,000	(370)	-
This time forecast (B) As of Aug 14, 2023	8,500	(290)	600
Change (B-A)	1,500	80	-
Percentage Change (%)	21.4%	-	-
(Ref) Results for the previous year (Fiscal year ending Mar. 31, 2023)	5,591	(378)	72

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(In millions of yen)	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	5,231	3,025
Accounts receivable – trade and contract assets	1,032	902
Other	108	413
Total current assets	6,372	4,342
Non-current assets		
Property, plant and equipment	165	226
Intangible assets		
Goodwill	160	2,431
Software	954	1,043
Other	0	0
Total intangible assets	1,114	3,475
Investments and other assets		
Investment securities	-	181
Other	287	373
Total investments and other assets	287	554
Total non-current assets	1,567	4,256
Total assets	7,939	8,598

(In millions of yen)	As of March 31, 2023	As of June 30, 2023
Liabilities and net assets		
Liabilities		
Current liabilities		
Short-term borrowings	-	1,000
Current portion of long-term borrowings	10	44
Accounts payable - other	225	496
Accrued expenses	304	401
Income tax payables	48	78
Contract liabilities	110	368
Provision for bonuses	15	136
Other	200	294
Total current liabilities	914	2,821
Non-current liabilities		
Long-term borrowings	300	352
Retirement benefit liability	66	60
Asset retirement obligations	39	48
Total non-current liabilities	406	461
Total liabilities	1,321	3,282
Net assets		
Shareholders' equity		
Share capital	2,337	2,351
Capital surplus	4,487	4,500
Retained earnings	(249)	(650)
Treasury stock	(34)	(959)
Total shareholders' equity	6,540	5,242
Share acquisition rights	3	5
Non-controlling interests	75	67
Total net assets	6,618	5,315
Total liabilities and net assets	7,939	8,598

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income

(In millions of yen)	Three Months Ended June 30	
	2022	2023
Net sales	1,196	1,302
Cost of sales	535	661
Gross profit	660	641
Selling, general and administrative expenses	897	989
Operating profit (loss)	(237)	(348)
Non-operating income		
Interest and dividend income	0	0
Subsidy income	0	0
Other	0	0
Total non-operating income	1	0
Non-operating expenses		
Interest expenses	0	1
Foreign exchange losses	0	0
Other	-	3
Total non-operating expenses	0	4
Ordinary profit (loss)	(236)	(352)
Extraordinary income		
Gain on sale of businesses	13	-
Total extraordinary income	13	-
Extraordinary losses		
Loss on liquidation of subsidiaries and associates	-	42
Total extraordinary losses	-	42
Profit (loss) before income taxes	(222)	(394)
Income taxes – current	5	13
Income taxes – deferred	(0)	(0)
Total income taxes	4	13
Profit (loss)	(227)	(408)
Profit (loss) attributable to non-controlling interests	(4)	(7)
Profit (loss) attributable to owners of parent	(223)	(400)

Consolidated Statements of Comprehensive Income

(In millions of yen)	Three Months Ended June 30	
	2022	2023
Profit (loss)	(227)	(408)
Comprehensive income	(227)	(408)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(223)	(400)
Comprehensive income attributable to non-controlling interests	(4)	(7)

(3) Notes to the consolidated financial statements

Going Concern Assumption

Not applicable.

Change in presentation

Consolidated Balance Sheets

"Provision for bonuses," which was included in "Other" under current liabilities in the previous consolidated fiscal year, is presented as a separate line item in the current consolidated fiscal year due to its increased importance in terms of amount. To reflect this change in presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified. As a result, ¥215 million presented as "Other" under current liabilities in the consolidated balance sheet for the previous fiscal year has been reclassified as "Provision for bonuses" of ¥15 million and "Other" of ¥200 million.

Notes on significant changes in the amount of shareholders' equity

The Company repurchased 2,485,900 shares of treasury stock in accordance with a resolution of the Board of Directors meeting held on March 22, 2023. As a result, treasury stock increased 924 million yen during the period under review. At the end of the consolidated accounting period, treasury stock was ¥959 million.

Change of scope of consolidation or scope of equity method

Important change of scope of consolidation

In the current consolidated fiscal year, acquired all shares of Stadium Co., Ltd. and included it in the scope of consolidation.

Segment Information

I. For the Three Months Ended June 30, 2022

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

(In millions of yen)	Reporting Segment			Adjustment (Note 1)	Amounts in the consolidated financial statements (Note 2)
	AI Platform	AI Products	Total		
Net sales					
Revenue from contracts with customers	1,057	138	1,196	-	1,196
Net sales to external customers	1,057	138	1,196	-	1,196
Intersegment revenue or transfers	-	-	-	-	-
Total	1,057	138	1,196	-	1,196
Segment profit (loss)	255	(127)	128	(365)	(237)

(Note) 1. Adjustment of segment income (loss) refers to expenses common to all segments.

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

2. Information on impairment losses on fixed assets or goodwill for each reportable segment

Significant Impairment Loss on Fixed Assets

Not applicable.

Significant changes in the amount of goodwill

Not applicable.

Significant gain on negative goodwill

Not applicable.

II. For the Three Months Ended June 30, 2023

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

(In millions of yen)		Reporting Segment			Adjustment (Note 1)	Amounts in the consolidated financial statements (Note 2)
	AI Platform	AI Products	Total			
Net sales						
Revenue from contracts with customers	1,119	183	1,302	-		1,302
Net sales to external customers	1,119	183	1,302	-		1,302
Intersegment revenue or transfers	-	-	-	-		-
Total	1,119	183	1,302	-		1,302
Segment profit (loss)	220	(159)	60	(409)		(348)

(Note) 1. Adjustment of segment income (loss) refers to expenses common to all segments.

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

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

Change in classification of segment common expenses

Indirect expenses previously included in reporting segments are now included in adjustment. The segment information for the first quarter of the previous fiscal year has been prepared in accordance with the new segmentation method.

3. Information on impairment losses on fixed assets or goodwill for each reportable segment

Significant Impairment Loss on Fixed Assets

Not applicable.

Significant changes in the amount of goodwill

In the current consolidated fiscal year, Goodwill of ¥2,284 million was generated due to the acquisition of shares of Stadium Co., Ltd. and its inclusion in the scope of consolidation. The amount of goodwill is the amount calculated by provisional accounting treatment since acquisition cost allocation not completed during the current consolidated fiscal year. In addition, we will consider reviewing the reportable segments in conjunction with making the company a consolidated subsidiary.

Significant gain on negative goodwill

Not applicable.

Business Combinations

Business combination through acquisition

At the extraordinary meeting of the Board of Directors held on June 30, 2023, the Company acquired 100% of the shares of Stadium Co., Ltd. decided to make it a subsidiary.

I. Overview of business combination

1. Name of the acquired company and details of its business

Name of acquired company

Stadium Co., Ltd.

Business content

Sales Support, Business Process Outsourcing, Business planning and management for planning, development, and sales of web services, applications, and systems

2. Main reasons for the business combination

By welcoming Stadium, which has knowledge about expanding sales of digital and DX products, to the ExaWizards group, We are aiming for further business growth by developing a system to provide our existing and new products to a wide range of customers, and by promoting collaboration and mutual customer referrals.

3. Business combination date

June 30, 2023

4. Legal form of business combination

Stock acquisition

5. Name of company after combination

No change.

6. Acquired voting rights ratio

100%

7. Main grounds for deciding on the acquirer

This is because the Company acquired the shares in consideration of cash.

II. Period of performance of the acquired company included in the quarterly consolidated statement of income for the quarterly consolidated cumulative period

Since only the balance sheet is consolidated, earnings of the acquired company are not included in the current first quarter consolidated cumulative period.

III. Acquisition compensation of the acquired company and breakdown by type of compensation

Since only the balance sheet is consolidated, earnings of the acquired company are not included in the current first quarter consolidated cumulative period.

Acquisition compensation cash ¥2,700 million

Acquisition cost ¥2,700 million

IV. Acquisition compensation of the acquired company and breakdown by type of compensation

Advisory fee, etc. ¥3 million

V. Amount of goodwill, cause of goodwill, amortization method and amortization period

1. Amount of goodwill

¥2,284 million

The above amounts are provisionally accounted for based on reasonable information available at the time the quarterly consolidated financial statements were prepared, since the identification of identifiable assets and liabilities and the calculation of their fair value as of the business combination date have not been completed, and the allocation of the acquisition cost has not been completed at the end of the current consolidated fiscal year.

2. Cause of goodwill

This is the excess earning power expected from future business development.

3. Amortization method and amortization period

We plan to amortize the cost evenly over the period in which it is estimated that the effect will be realized, and currently examining the period during which the investment effect will be realized.

VI. Amounts of assets and liabilities assumed on the date of the business combination and their main breakdown

Not confirmed at this time.

Significant Subsequent Events:

Establishment of subsidiary

At a meeting of the Board of Directors held on August 14, 2023, the Company resolved to transfer the rights and obligations of our generated AI products business to a newly established company "Exa Enterprise AI Inc." (hereinafter referred to as the "Newly Established Company"), which will be our wholly owned subsidiary, via a corporate separation (the "Corporate Separation"), effective as of (planned) October 2, 2023.

I. Purpose of Establishment

Through this newly established company, we will promote the establishment of a foundation for more rapid and flexible planning, development, and sales of products that utilize our generative AI, and will lay the groundwork for medium- to long-term expansion of our AI product business, as well as for stronger business development aimed at solving the social issue of improving the productivity of all Japanese companies.

II. Purpose of Establishment

1. Name: Exa Enterprise AI Inc.
2. Address of Head Office: Higashi Shimbashi 1-9-2, Minato-ku, Tokyo
3. Business: Improve corporate productivity through the planning, development, and sale of products and services that take advantage of technologies such as generative AI
4. Capital: ¥300 million
5. Date of Establishment: October 2023
6. Investment Ratio: 100%