

Translation

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Summary of Financial Results for the Nine Months Ended September 30, 2023 (Japanese GAAP) (Consolidated)



November 10, 2023

Name of listed company: Chatwork Co., Ltd.

Listing exchange: Tokyo Stock Exchange

Securities code: 4448

URL: <https://corp.chatwork.com/en/>

Representative: Masaki Yamamoto, Representative Director, President, Senior Executive Officer & CEO

Contact for inquiries: Naoki Inoue, Director, Senior Executive Officer & CFO

Tel: 81-50-1791-0683

Scheduled date to file quarterly securities report : November 10, 2023

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, 2023

(1) Consolidated business results (from January 1, 2023 to September 30, 2023)

(% indicate year-on-year changes)

	Revenue		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended September 30, 2023	4,613	39.3	(226)	—	(675)	—	(680)	—	(680)	—
Nine months ended September 30, 2022	3,312	43.1	(295)	—	(474)	—	(471)	—	(445)	—

(Note) Comprehensive income (millions of yen)

Nine months ended September 30, 2023: (697) (—%) Nine months ended September 30, 2022: (472) (—%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2023	(16.98)	—
Nine months ended September 30, 2022	(11.26)	—

(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) EBITDA is calculated by adding operating profit, depreciation and amortization expenses, and share-based payment expenses.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2023	5,970	2,318	38.5
As of December 31, 2022	5,400	2,869	52.4

(Reference) Equity As of September 30, 2023 2,295 million yen As of December 31, 2022 2,831 million yen

2. Cash dividends

	Annual cash dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
Year ended December 31,2022	Yen —	Yen 0.00	Yen —	Yen 0.00	Yen 0.00
Year ended December 31,2023	—	0.00	—	0.00	0.00
Fiscal year ending December 31,2023(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, 2023 (from January 1, 2023 to December 31, 2023)

(% indicate year-on-year changes)

	Revenue		EBITDA		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	%	Millions of yen	%	Yen
Full year	6,451	40.4	(116)	—	(716)	—	(725)	—	(711)	—	(17.74)

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

*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 8 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)	As of September 30,2023	40,288,718 shares	As of December 31, 2022	39,941,702 shares
2) Number of treasury shares at end of the period	As of September 30,2023	18,325 shares	As of December 31, 2022	2,223 shares
3) Average number of shares during the period (for the nine months ended September 30, 2023)	Nine months ended September 30,2023	40,082,161 shares	Nine months ended June 30, 2022	39,605,489 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

The Chatwork Group has a mission of “making work more fun and creative.” People spend over half their lives working. We believe that time is not just for earning money. We develop and offer services aimed at making work more efficient and creative, helping as many employees as possible to enjoy their work more and express their creativity fully and freely.

In line with this mission, our current flagship service, Chatwork (a business chat tool) provides improvements in labor productivity and diversity in work styles to our client companies, mainly Japanese SMEs. As a result, we have the most users in Japan (Note 1). Our medium- to long-term vision is to leverage our overwhelming share of the SME market for business chat, helping SMEs achieve further digital transformation by turning our service into a business super app—a platform that serves as a launching point for all manner of businesses.

In the first nine months of the fiscal year, we invested in promoting the adoption of Chatwork and in expanding peripheral services that leverage our business chat platform. Business is progressing steadily, including an increase in ARPU due to price revision and expansion of services into the area of human resources and labor affairs by Minazin, Inc. which became a consolidated subsidiary in February 2023. “Chatwork Assistant” as a new in-house service of “BPaaS” (Note 2) in June 2023, and we will aim to further expand our business.

As a result, in the first nine months of the fiscal year the Company recorded revenue of 4,613,647 thousand yen (up 39.3% year on year), EBITDA (Note 3) of negative 226,376 thousand yen (negative 295,460 thousand yen for the same period of the previous year), an operating loss of 675,955 thousand yen (operating loss of 474,852 thousand yen for the same period of the previous year), an ordinary loss of 680,668 thousand yen (ordinary loss of 471,311 thousand yen for the same period of the previous year), and a loss attributable to owners of parent of 680,770 thousand yen (loss attributable to owners of parent of 445,933 thousand yen for the same period of the previous year).

The following describes the business results by each segment.

(Chatwork Segment)

Net revenue was 4,462,052 thousand yen (up 42.3% year on year) and segment loss of 715,167 thousand yen (segment loss of 527,530 thousand yen for the same period of the previous year).

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 indirect costs is recorded as expenses in this segment.

ARR (Note 4), number of paying IDs, and ARPU in the Chatwork account business

	Q4 '20	Q4 '21	Q4 '22	Q3 '22	Q3 '23
ARR (Unit : JPY million)	2,279	3,447	4,425	3,986	5,871
Number of Paying IDs (Unit : 10000)	45.7	54.7	66.8	60.6	72.4
ARPU (Unit : JPY)	409.9	529.4	547.4	539.3	627.4

(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 151,594 thousand yen (down 14.7% year on year) and segment profit stood at 39,212 thousand yen (down 25.6% year on year). 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.

Notes

1. According to a survey of monthly active users (MAUs) conducted in May 2023 by Nielsen NetView and Nielsen Mobile, from among 44 applicable services selected by Chatwork Co., Ltd. In addition to Chatwork, these included Microsoft Teams, Slack, LINE WORKS, and Skype.
2. BPaaS is short for Business Process as a Service. Rather than just software, BPaaS is a cloud service that provides business services themselves, allowing facilitating cloud-based business process outsourcing (BPO).
3. EBITDA is calculated by adding operating profit, depreciation and amortization expenses, and share-based payment expenses.
4. ARR is short for annual recurring revenue, which equates to monthly recurring revenue (MRR) times 12.

(2) Explanation on Financial Position

(Assets)

Total assets as of September 30, 2023 increased by 569,736 thousand yen compared with the end of the previous fiscal year to 5,970,123 thousand yen. This was mainly due to an increase in goodwill of 773,758 thousand yen, an increase in software of 382,768 thousand yen, an increase in Investments and other assets of 366,808 thousand yen, and a decrease in cash and deposits of 1,154,793 thousand yen.

(Liabilities)

Total liabilities as of September 30, 2023 increased by 1,121,650 thousand yen compared with the end of the previous fiscal year to 3,652,105 thousand yen. This was mainly due to an increase in long-term borrowings of 402,289 thousand yen, an increase in contract liabilities of 348,885 thousand yen, and an increase in the current portion of long-term borrowings of 164,128 thousand yen.

(Net Assets)

Net assets as of September 30, 2023 decreased by 551,914 thousand yen compared with the end of the previous fiscal year to 2,318,017 thousand yen. This was mainly due to an increase in share capital of 72,738 thousand yen, an increase in capital surplus of 72,738 thousand yen, and a decrease in retained earnings of 680,770 thousand yen. As a result, the equity ratio was 38.5% (52.4% at the end of the previous fiscal year).

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

For FY2023, we have revised our forecast from a range to the figures outlined below, although companywide revenue are expected to grow at 40.4% year on year and Chatwork Segment that at 43.3% year on year, due to higher ARPU from price revisions in chatwork service and sales expansion subsidiaries' and other peripheral services. Operating income is expected to be in the black from December.

There were three main factors behind our revised earnings forecast: (1) discrepancy in expected unit price following the revision of pricing on business chat, (2) a decline in the number of paying IDs after the price revisions, and (3) a shortfall in revenue at subsidiaries.

Regarding ARPU (1), some price revisions were delayed due to variations in contract dates per user, causing disparities with the forecasts. However, we expect ARPU to align with initial projections after the price revision in July next year. Regarding paying IDs (2), the changes in last year's free plan restrictions and the current price revisions affected them, causing disparities with the forecasts. Nevertheless, we have confirmed a recent recovery. As to factor (3), the shortfall in Group company revenues, we have been prioritizing the establishment of a structure to expand revenue, and we anticipate steady business progress going forward.

As we expect to resolve all of these factors in the next fiscal year, we envision no change in our steady progress toward achieving the targets in our medium-term management plan.

Details of the business outlook are as follows. Please also refer to Third Quarter of FY2023 Results , which was disclosed on the same day.

Unit : million yen	FY 2022 actual	FY2023 forecast	YoY
Revenue	4,593	6,451	+40.4%
Chatwork segment	4,368	6,262	+43.3%
Gross profit	3,187	4,125	+29.4%
Gross margin	69.3%	63.9%	-5.4pt
EBITDA	(468)	(116)	—
Operating profit	(719)	(716)	—
Ordinary profit	(724)	(725)	—
Profit attributable to owners of parent	(687)	(711)	—

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	As of December 31, 2022	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	2,850,323	1,695,530
Accounts receivable - trade	307,867	409,514
Prepaid expenses	690,402	773,763
Other	71,376	31,318
Allowance for doubtful accounts	(72)	(260)
Total current assets	3,919,898	2,909,867
Non-current assets		
Property, plant and equipment	29,652	11,750
Intangible assets		
Software	248,580	631,349
Goodwill	285,326	1,059,084
Other	626,677	701,012
Total intangible assets	1,160,584	2,391,446
Investments and other assets	290,251	657,059
Total non-current assets	1,480,488	3,060,256
Total assets	5,400,387	5,970,123
Liabilities		
Current liabilities		
Accounts payable - other	327,445	308,042
Accrued expenses	137,443	187,259
Income taxes payable	32,160	21,205
Contract liabilities	995,838	1,344,723
Provision for bonuses	21,600	21,788
Short-term borrowings	—	2,200
Current portion of long-term borrowings	102,000	266,128
Other	115,712	110,199
Total current liabilities	1,732,200	2,261,547
Non-current liabilities		
Long-term borrowings	763,500	1,165,789
Deferred tax liabilities	34,754	152,352
Retirement benefit liability	—	2,417
Other	—	70,000
Total non-current liabilities	798,254	1,390,558
Total liabilities	2,530,455	3,652,105
Net assets		
Shareholders' equity		
Share capital	2,622,024	2,694,762
Capital surplus	2,607,884	2,680,622
Retained earnings	(2,398,796)	(3,079,566)
Treasury stock	(88)	(88)
Total shareholders' equity	2,831,023	2,295,729
Non-controlling interests	38,908	22,287
Total net assets	2,869,931	2,318,017
Total liabilities and net assets	5,400,387	5,970,123

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

For the nine months ended September 30, 2023

Quarterly Consolidated Statement of Income (cumulative)

(Unit: thousand yen)

	Nine months ended September 30, 2022	Nine months ended September 30, 2023
Revenue	3,312,984	4,613,647
Cost of revenue	985,318	1,709,126
Gross profit	2,327,666	2,904,520
Selling, general and administrative expenses	2,802,519	3,580,476
Operating profit (loss)	(474,852)	(675,955)
Non-operating income		
Interest income	24	93
Foreign exchange gains	17,299	—
Subsidy income	—	2,497
Income from point cord	—	6,526
Miscellaneous income	2,181	302
Total non-operating income	19,505	9,419
Non-operating expenses		
Interest expenses	4,669	11,739
Foreign exchange losses	—	145
Share issuance costs	9,855	506
Other	1,439	1,741
Total non-operating expenses	15,963	14,132
Ordinary profit (loss)	(471,311)	(680,668)
Extraordinary income		
Gain on sales of non-current assets	461	—
Total extraordinary profit	461	—
Extraordinary loss		
Loss on valuation of investment securities	—	24,000
Total extraordinary profit	—	24,000
Profit (loss) before income taxes	(470,849)	(704,668)
Income taxes - current	4,578	4,407
Income taxes - deferred	(3,066)	(11,685)
Total income taxes	1,512	(7,277)
Profit (loss)	(472,361)	(697,390)
Profit (loss) attributable to non-controlling interests	(26,427)	(16,620)
Profit (loss) attributable to owners of parent	(445,933)	(680,770)

Quarterly Consolidated Statement of Comprehensive Income (cumulative)

(Unit: thousand yen)

	Nine months ended September 30, 2022	Nine months ended September 30, 2023
Profit (loss)	(472,361)	(697,390)
Other comprehensive income		
Comprehensive income	(472,361)	(697,390)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(445,933)	(680,770)
Comprehensive income attributable to non-controlling interests	(26,427)	(16,620)

(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 Guidance on Accounting Standard for Fair Value Measurement)

The Company adopted the "Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31 revised June 17, 2021) at the beginning of the first quarter of the fiscal year. In accordance with the transitional treatment provided in Paragraph 27-2 of the Guidance on Accounting Standard for Fair Value Measurement, new accounting policies prescribed by the Guidance on Accounting Standard for Fair Value Measurement are applied prospectively.

This change in accounting policies does not affect the quarterly consolidated financial statements.

(Segment Information, Etc.)

[Segment information]

Nine months ended September 30, 2022

Information on Revenue and Profit or Loss Amounts by Reportable Segment

(Unit: thousand yen)

	Reportable segment			Total (Note)
	Chatwork segment	Security segment	Total	
Revenue				
Performance obligations satisfied at a point in time	128,407	177,675	306,083	306,083
Performance obligations satisfied over time	3,006,901	—	3,006,901	3,006,901
Revenue from contracts with customers	3,135,309	177,675	3,312,984	3,312,984
Other revenue	—	—	—	—
Revenue to outside customers	3,135,309	177,675	3,312,984	3,312,984
Intersegment net revenue or transfers	—	—	—	—
Total	3,135,309	177,675	3,312,984	3,312,984
Segment profit (loss)	(527,530)	52,677	(474,852)	(474,852)

(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.

Nine months ended September 30, 2023

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	168,270	151,594	319,864	319,864
Performance obligations satisfied over time	4,293,782	—	4,293,782	4,293,782
Revenue from contracts with customers	4,462,052	151,594	4,613,647	4,613,647
Other revenue	—	—	—	—
Revenue to outside customers	4,462,052	151,594	4,613,647	4,613,647
Intersegment net revenue or transfers	—	—	—	—
Total	4,462,052	151,594	4,613,647	4,613,647
Segment profit (loss)	(715,167)	39,212	(675,955)	(675,955)

(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.

(Business Combinations, Etc)

Finalization of provisional accounting treatment for business combinations

The business combination with Minagine Co., Ltd. on February 1, 2023 was accounted for tentatively in the first quarter of the current fiscal year, but was finalized in the third quarter of the current fiscal year.

As a result of reviewing the initial allocation of the acquisition cost in accordance with the finalization of this provisional accounting treatment, the amount of goodwill tentatively calculated at 1,141,717 thousand yen decreased by 285,717 thousand yen to 856,000 thousand yen, mainly due to an increase in customer-related assets.

(Significant Subsequent Events)

Not applicable.