

Translation

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Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2023 (IFRS)

November 14, 2023

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 Stock exchange listing: Tokyo Stock Exchange
 Stock code: 5255 URL <https://monstar-lab.com/jp/>
 Representative: Representative Director/Group CEO Hiroki Inagawa
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 Scheduled date to file Quarterly Securities Report: November 14, 2023
 Scheduled date to commence dividend payments: —
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for analysts and institutional investors [on-demand video])

(Amounts less than one million yen are rounded down)

1. Consolidated Financial Results for the Nine Months Ended September 30, 2023 (January 1, 2023, to September 30, 2023)

(1) Consolidated operating results

(Percentages represent year-on-year changes)

	Revenue		Operating profit		Profit before tax		Profit (loss)		Profit attributable to owners of parent		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended September 30, 2023	10,110	-0.2	- 1,494	—	- 896	—	-1,053	—	-1,090	—	- 1,197	—
Nine months ended September 30, 2022	10,125	53.0	-549	—	-106	—	-341	—	-308	—	-355	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2023	-32.68	-32.68
Nine months ended September 30, 2022	-10.19	-10.19

On January 5, 2023, the Company carried out a one-to-50 stock split based on a resolution of the Board of Directors passed at its meeting held on November 21, 2022. The basic earnings per share and diluted earnings per share shown above are calculated based on the assumption that the stock split was carried out at the beginning of the 17th fiscal period (ended December 2022).

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of total equity attributable to owners of parent to total assets
	Million yen	Million yen	Million yen	%
As of September 30, 2023	16,027	4,924	4,934	30.8
As of December 31, 2022	12,983	4,092	4,584	35.3

Note: In the second quarter of the fiscal year ending December 31, 2023, we finalized certain temporary accounting treatments concerning business combinations. Figures for the fiscal year ended December 31, 2022 have been prepared by reflecting the results of finalization of the temporary accounting treatments.

2. Dividends

	Dividends per share				
	First quarter	Second quarter	Third quarter	Fourth quarter	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2022	—	0.00	—	0.00	0.00
Fiscal year ended December 31, 2023	—	0.00			
Fiscal year ended December 31, 2023 (forecast)			—	0.00	0.00

Revision of most recent dividend forecast: No

3. Consolidated Forecast for the Fiscal Year Ending December 31, 2023 (January 1, 2023, to December 31, 2023)

(Percentages represent year-on-year changes compared to the previous year for full-year forecasts)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	14,273	0.0	-1,255	—	-783	—	-923	—	-968	—	-28.67

Revision of most recent earnings forecast: No

Notes

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

(2) Changes in accounting policies and accounting estimates

(i) Changes in accounting policies requested by IFRS : No

(ii) Changes in accounting policies other than (i) above : No

(iii) Changes in accounting estimates : No

(3) Number of issued shares (common stock)

(i) Number of issued shares at end of period (including treasury stock)

As of September 30, 2023	34,280,950 shares	As of December 31, 2022	634,039 shares
As of September 30, 2023	0 shares	As of December 31, 2022	0 shares
Nine months ended September 30, 2023	33,376,320 shares	Nine months ended September 30, 2022	605,963 shares

(ii) Number of shares of treasury stock at end of period

(iii) Average number of shares outstanding during the period

On January 5, 2023, the Company carried out a one-to-50 stock split based on a resolution of the Board of Directors passed at its meeting held on November 21, 2022. The share numbers shown above for the fiscal year ended December 31, 2022, indicate the figures before the stock split.

The quarterly financial statements are not subject to quarterly review by a certified public accountant or auditing firm.

Explanation regarding appropriate use of earnings forecasts and other special notes

(Cautionary Statement Regarding Forward-Looking Statements)

The forward-looking statements in this document, including earnings forecasts, are based on information currently available to the Company and certain assumptions that the Company deems reasonable. Therefore, it is not intended to promise its achievement. Actual results may differ materially due to various factors. For the assumptions underlying earnings forecasts and disclaimers concerning the use of earnings forecasts, refer to Section 1, “Qualitative Information on Quarterly Financial Results,” Subsection 3, “Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information” on pg. 2 of the Appendix.

Contents of Appendix

1.	Qualitative Information on Quarterly Financial Results.....	2
(1)	Explanation of Operating Results.....	2
(2)	Explanation of Financial Position.....	3
(3)	Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information.....	4
2.	Quarterly Consolidated Financial Statements and Notes.....	5
(1)	Quarterly Consolidated Statement of Financial Position.....	5
(2)	Quarterly Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income.....	7
(3)	Quarterly Consolidated Statement of Changes in Equity.....	9
(4)	Quarterly Consolidated Statement of Cash Flows.....	10
(5)	Notes about Quarterly Consolidated Financial Statements.....	11
1.	Reporting Company.....	11
2.	Basis for Preparing Consolidated Financial Statements.....	11
3.	Material Accounting Policies.....	11
4.	Significant Accounting Judgments, Estimates, and Assumptions.....	11
5.	Fair Values of Financial Instruments.....	12
6.	Revenue.....	16
7.	Operating Segments	16
8.	Earnings per Share.....	18
9.	Loss of Control.....	20
10.	Business Combinations.....	22
11.	Subsequent Events.....	24
12.	Notes about Premise of a Going Concern.....	25

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

The mission of the Monstarlab Group (the “Group”) is “Empower talent everywhere to engineer awesome products, services and ecosystems; building a brighter world for us all.” We aim to realize a better world by working with our clients as their digital partner to create products, services, and ecosystems that will resolve global issues while providing people with opportunities to work, grow, and participate in projects tackling global issues across national borders.

During the nine months ended September 30, 2023, the global economy and the Japanese economy continued to face uncertain outlook as they were affected the protracted situation in Ukraine and Russia and the acceleration of monetary tightening in response to global inflation, although normalization of social and economic activities were well underway due in part to the reclassification of COVID-19 in Category 5, the same category as seasonal flu, under the Infectious Diseases Prevention Act. On the other hand, in the IT industry, there continues to be a healthy corporate appetite for investment in digital transformation (DX) on the back of increasing demand for DX that is directly linked to management strategies.

In the current business environment, the Group is focusing on the digital consultancy business as its main business, primarily targeting corporations and local governments to support DX aligned with their business issues and new business needs. The Group is also pursuing other business, including product business, globally across 19 countries and regions (as of September 30, 2023). The Group has divided the geographic areas in which it operates its digital consultancy business into three regions: APAC (Japan and Asia Pacific), EMEA (Europe, Middle East, and Africa), and AMER (North, Central, and South America).

During the nine months under review, in APAC, the Group acquired several new projects that start from the development phase while existing projects transitioned from the strategy phase to the development phase. In EMEA, the Group also made progress, including orders received for large projects. However, revenue for the period decreased slightly by 0.2% YoY. As for operating profit, the Group recorded an operating loss of 1,494,148 thousand yen due to the significant impact of the recognition of non-recurring structural reform expenses of 627,424 thousand yen. On the other hand, the Company recognized, in financial income, foreign exchange gains of 663,802 thousand yen arising from changes in fair value, including those arising from changes in exchange rates with regard to yen-denominated loans from the Company to overseas subsidiaries (which are foreign currency-denominated borrowings from parent from the perspective of subsidiaries) (mainly in EMEA) and foreign currency-denominated securities held by the Company, which are shares of a U.S. company, Chowly, Inc. As a result, the Company recognized a loss attributable to owners of parent of 1,090,748 thousand yen for the period.

In summary, for the nine months ended September 30, 2023, the Group recorded revenue of 10,110,558 thousand yen (-0.2% YoY), operating loss of 1,494,148 thousand yen (vs. an operating loss of 549,971 thousand yen for the same period last year), loss before tax of 896,259 thousand yen (vs. a loss before tax of 106,551 thousand yen for the same period last year), and loss attributable to owners of parent of 1,090,748 thousand yen (vs. a loss attributable to owners of parent of 308,884 thousand yen for the same period last year).

The operating results for the digital consultancy business by region are as shown below.

1. APAC

For the nine months under review, the Group recorded revenue of 5,363,213 thousand yen (-5.3% YoY; revenue for the third quarter was 1,749,125 thousand yen, +2.9% from the previous quarter) and operating profit of 160,357 thousand yen (-79.7% YoY; operating profit for the third quarter was 72,264 thousand yen, +226.3% from the previous quarter).

While orders for new projects remained strong, the Group secured 16 projects that start from the development phase among 36 new projects acquired during the third quarter under review. This result is as planned in the strategy stated in “Measures to be Taken in Each Region” of the “Notice of Revision of Full-year Consolidated Earnings Forecast, Recognition of Structural Reform Expenses, and Reduction in Directors’ Remuneration” announced on August 14. The subject matters of these new projects are also in line with latest trends, such as decarbonization and inbound tourism.

As for operating profit, profitability in the third quarter under review improved from the previous quarter as the Group reduced outsourcing costs in Japan while increasing capacity utilization at its overseas development bases.

2. EMEA

For the nine months under review, the Group recorded revenue of 3,854,180 thousand yen (+24.5% YoY; revenue for the third quarter was 1,349,496 thousand yen, +18.7% from the previous quarter) and an operating loss of 1,650,492 thousand yen (vs. an operating loss of 678,642 thousand yen for the same period last year; operating loss for the third quarter was 931,569 thousand yen, vs. an operating loss of 629,470 thousand yen for the previous quarter).

In the Middle East, which is the Group's focus market within EMEA, revenue was boosted by large government projects acquired during the period under review, and orders received for new projects also remained strong. In Europe, the Group also received an increasing number of orders in the healthcare area, which is one of its focus areas.

Operating profit was negative due to the significant impact of the recognition of non-recurring structural reform expenses at once in the third quarter under review while the benefit of headcount reduction has not been fully reflected in the results for the quarter as the timing of completion of the structural reform carried out in the quarter was delayed in consideration of its impact on projects.

3. AMER

For the nine months under review, the Group recorded revenue of 578,076 thousand yen (-33.0% YoY; revenue for the third quarter was 153,746 thousand yen, -19.4% from the previous quarter) and an operating loss of 268,114 thousand yen (vs. an operating profit of 111,956 thousand yen for the same period last year; operating loss for the third quarter was 172,128 thousand yen, vs. an operating loss of 48,140 thousand yen for the previous quarter).

Due to the downscaling of some of the projects with existing customers, revenue decreased YoY. On the other hand, orders for new projects in focus areas are coming along well.

As for operating profit, the size of operating loss widened from the same period last year due to the combined effect of the decrease in revenue and the recognition of structural reform expenses mainly for reducing headcounts.

(2) Explanation of Financial Position

1) Status of assets, liabilities, and equity

The status of various items at the end of the consolidated third quarter under review are as shown below.

(Current assets)

The balance of current assets was 7,863,889 thousand yen (vs. 7,818,219 thousand yen at the end of the previous fiscal year). This includes cash and cash equivalents of 3,196,415 thousand yen (vs. 2,724,484 thousand yen at the end of the previous fiscal year) and trade and other receivables of 2,627,998 thousand yen (vs. 3,073,532 thousand yen at the end of the previous fiscal year).

(Non-current assets)

The balance of non-current assets was 8,163,644 thousand yen (vs. 5,165,579 thousand yen at the end of the previous fiscal year). This includes goodwill of 3,748,064 thousand yen (vs. 3,298,633 thousand yen at the end of the previous fiscal year) and other financial assets of 3,017,646 thousand yen (vs. 449,727 thousand yen at the end of the previous fiscal year).

(Current liabilities)

The balance of current liabilities was 8,221,343 thousand yen (vs. 5,560,860 thousand yen at the end of the previous fiscal year). This includes trade and other payables of 903,565 thousand yen (vs. 1,327,415 thousand yen at the end of the previous fiscal year) and bonds and borrowings of 4,926,011 thousand yen (vs. 1,924,423 thousand yen at the end of the previous fiscal year).

(Non-current liabilities)

The balance of non-current liabilities was 2,882,002 thousand yen (vs. 3,330,513 thousand yen at the end of the previous fiscal year). This includes bonds and borrowings of 1,511,701 thousand yen (vs. 1,924,425 thousand yen at the end of the previous fiscal year) and lease liabilities of 537,556 thousand yen (vs. 712,155 thousand yen at the end of the previous fiscal year).

(Total equity)

Total equity was 4,924,187 thousand yen (vs. 4,092,424 thousand yen at the end of the previous fiscal year). This includes share capital of 1,919,919 thousand yen (vs. 1,065,754 thousand yen at the end of the previous fiscal year), capital surplus of

10,440,799 thousand yen (vs. 9,708,785 thousand yen at the end of the previous fiscal year), and retained earnings of minus 7,293,781 thousand yen (vs. minus 6,203,033 thousand yen at the end of the previous fiscal year).

2) Status of cash flows

Cash and cash equivalents (hereinafter referred to as "net cash") at the end of the consolidated Third quarter of the fiscal year under review was 3,196,415 thousand yen (vs. 2,724,484 thousand yen at the end of the previous consolidated fiscal year).

Cash flow activities and contributing factors during the consolidated Third quarter of the fiscal year under review were as shown below.

(Cash flows from operating activities)

Net cash used in operating activities totaled 2,842,821 thousand yen (vs. 953,717 thousand yen in the same period last year). The main factors were a profit before tax of minus 896,259 thousand yen (vs. minus 106,551 thousand yen for the same period last year), a decrease in trade and other receivables of 661,228 thousand yen (vs. an increase of 1,052,066 thousand yen for the same period last year), an increase in contract assets of 534,520 thousand yen (vs. an increase of 394,890 thousand yen for the same period last year), a net outflow from gain on sale of shares of subsidiaries of 762,438 thousand yen (0 yen for the same period last year), a net inflow from other changes of 440,133 thousand yen (a net inflow of 541,709 thousand yen for the same period last year), and income taxes paid of 345,158 thousand yen (79,168 thousand yen for the same period last year).

(Cash flows from investing activities)

Net cash used in investing activities totaled 816,457 thousand yen (vs. 1,222,926 thousand yen in the same period last year). The main factors include purchase of investment securities of 392,919 thousand yen (vs. 0 yen for the same period last year) and purchase of property, plant and equipment of 67,652 thousand yen (vs. 209,521 thousand yen for the same period last year), purchase of intangible assets of 303,541 thousand yen (vs. 349,670 thousand yen for the same period last year).

(Cash flows from financing activities)

Net cash provided by financing activities totaled 4,001,509 thousand yen (vs. 1,089,479 thousand yen in the same period last year). The main factors include proceeds from capital increase of 1,708,329 thousand yen (vs. 566,470 thousand yen for the same period last year), proceeds from long-term borrowings of 600,000 thousand yen (vs. 710,000 thousand yen for the same period last year), repayments of long-term borrowings of 473,282 thousand yen (vs. 433,866 thousand yen for the same period last year), repayments of lease liabilities of 289,365 thousand yen (vs. 289,338 thousand yen for the same period last year), and redemption of bonds of 114,500 thousand yen (vs. 133,500 thousand yen for the same period last year).

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Information

As for our consolidated earnings forecast for the fiscal year ending December 31, 2023, there has been no change from the "Notice of Revision of Full-year Consolidated Earnings Forecast, Recognition of Structural Reform Expenses, and Reduction in Directors' Remuneration" announced on August 14, 2023.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Statement of Financial Position

(Unit: Thousand yen)

	Note	As of December 31, 2022	As of September 30, 2023
Assets			
Current assets			
Cash and cash equivalents		2,724,484	3,196,415
Trade and other receivables		3,073,532	2,627,998
Contract assets		730,631	1,390,518
Inventories		41	62,524
Other current assets		434,048	586,431
Subtotal		6,962,739	7,863,889
Assets held for sale	9	855,479	—
Total current assets		7,818,219	7,863,889
Non-current assets			
Property, plant, and equipment		303,604	295,262
Right-of-use assets		350,821	326,466
Goodwill		3,298,633	3,748,064
Intangible assets		579,171	668,087
Other financial assets	5	449,727	3,017,646
Deferred tax assets		109,653	40,824
Other non-current assets		73,967	67,292
Total non-current assets		5,165,579	8,163,644
Total assets		12,983,798	16,027,534

(Unit: Thousand yen)

	Note	As of December 31, 2022	As of September 30, 2023
Liabilities and equity			
Current liabilities			
Trade and other payables		1,327,415	903,565
Contract liabilities		151,104	306,621
Bonds and borrowings	5	1,924,423	4,926,011
Lease liabilities		312,384	306,885
Income taxes payable		346,373	133,536
Allowance		26,984	143,493
Other current liabilities		1,454,695	1,501,229
Subtotal		5,543,382	8,221,343
Liabilities directly related to assets held for sale	9	17,478	—
Total current liabilities		5,560,860	8,221,343
Non-current liabilities			
Bonds and borrowings		1,924,425	1,511,701
Lease liabilities		712,155	537,556
Allowance		126,832	126,986
Deferred tax liabilities		205,190	133,710
Other non-current liabilities		361,910	572,048
Total non-current liabilities		3,330,513	2,882,002
Total liabilities		8,891,374	11,103,346
Equity			
Share capital		1,065,754	1,919,919
Capital surplus		9,708,785	10,440,799
Retained earnings		-6,203,033	-7,293,781
Other components of equity		12,651	-132,299
Total equity attributable to owners of parent		4,584,158	4,934,638
Non-controlling interests		-491,733	-10,450
Total equity		4,092,424	4,924,187
Total liabilities and equity		12,983,798	16,027,534

(2) Quarterly Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income
(Quarterly Consolidated Statement of Profit or Loss)

(Unit: Thousand yen)

	Note	Nine months ended September 30, 2022	Nine months ended September 30, 2023
Revenue	7	10,125,872	10,110,558
Cost of sales		-6,727,442	-7,466,145
Gross profit		3,398,430	2,644,413
Selling, general, and administrative expenses		-4,150,498	-4,825,417
Other income		209,133	850,054
Other expenses		-7,036	-163,198
Operating profit (loss)		-549,971	-1,494,148
Finance income		509,477	664,898
Finance costs		-66,058	-66,770
Share of loss (profit) of entities accounted for using equity method		—	-239
Profit (loss) before tax		-106,551	-896,259
Income tax expenses		-234,788	-156,884
Profit (loss)		-341,340	-1,053,144
Profit (loss) attributable to			
Owners of parent		-308,884	-1,090,748
Non-controlling interests		-32,456	37,604
Profit (loss)		-341,340	-1,053,144
Earnings (loss) per share			
Basic earnings (loss) per share (yen)	8	-10.19	-32.68
Diluted earnings (loss) per share (yen)	8	-10.19	-32.68

(Quarterly Consolidated Statement of Comprehensive Income)

(Unit: Thousand yen)

	Note	Nine months ended September 30, 2022	Nine months ended September 30, 2023
Profit (loss)		-341,340	-1,053,144
Other comprehensive income			
Items that may not be reclassified to profit or loss:			
Remeasurement of defined benefit plans		87	92
Total of items		87	92
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		-14,469	-144,913
Total of items		-14,469	-144,913
Other comprehensive income, net of tax		-14,382	-144,820
Total comprehensive income		-355,722	-1,197,964
Total comprehensive income attributable to			
Owners of parent		-321,072	-1,235,699
Non-controlling interests		-34,650	37,734
Total comprehensive income		-355,722	-1,197,964

(3) Quarterly Consolidated Statement of Changes in Equity

For the nine months ended September 30, 2022 (From January 1, 2022 to Nine 30, 2022)

(Unit: Thousand yen)

	Note	Equity attributable to owners of parent							Non-controlling interests	Total equity
		Share capital	Capital surplus	Retained earnings	Other components of equity			Total equity attributable to owners of parent		
					Exchange differences on translation of foreign operations	Remeasurement of defined benefit plans	Total other components of equity			
Balance as of January 1, 2022		392, 634	8, 804, 510	-5, 528, 265	83, 048	454	83, 503	3, 752, 382	-441, 204	3, 311, 178
Profit (loss)		—	—	-308, 884	—	—	—	-308, 884	-32, 456	-341, 340
Other comprehensive income		—	—	—	-12, 275	87	-12, 187	-12, 187	-2, 194	-14, 382
Total comprehensive income		—	—	-308, 884	-12, 275	87	-12, 187	-321, 072	-34, 650	-355, 722
Issuance of new shares		283, 330	283, 139	—	—	—	—	566, 470	—	566, 470
Share-based payment Transactions		—	162, 748	—	—	—	—	162, 748	—	162, 748
Loss of control of subsidiaries		—	—	—	—	—	—	—	—	—
Other		—	—	—	—	—	—	—	-205	-205
Total transactions with owners and other transactions		283, 330	445, 888	—	—	—	—	729, 218	-205	729, 013
Balance as of September 30, 2022		675, 965	9, 250, 398	-5, 837, 150	70, 773	542	71, 315	4, 160, 529	-476, 059	3, 684, 469

For the nine months ended September 30, 2023 (From January 1, 2023 to Nine 30, 2023)

(Unit: Thousand yen)

	Note	Equity attributable to owners of parent							Non-controlling interests	Total equity
		Share capital	Capital surplus	Retained earnings	Other components of equity			Total equity attributable to owners of parent		
					Exchange differences on translation of foreign operations	Remeasurement of defined benefit plans	Total other components of equity			
Balance as of January 1, 2023		1,065,754	9,708,785	-6,203,033	12,137	513	12,651	4,584,158	-491,733	4,092,424
Profit (loss)		—	—	-1,090,748	—	—	—	-1,090,748	37,604	-1,053,144
Other comprehensive income		—	—	—	-145,043	92	-144,950	-144,950	130	-144,820
Total comprehensive income		—	—	-1,090,748	-145,043	92	-144,950	-1,235,699	37,734	-1,197,964
Issuance of new shares		854,164	844,564	—	—	—	—	1,698,729	—	1,698,729
Share-based payment Transactions		—	202,858	—	—	—	—	202,858	—	202,858
Loss of control of subsidiaries		—	131,326	—	—	—	—	131,326	4,025	135,352
Other		—	-446,735	—	—	—	—	-446,735	439,523	-7,212
Total transactions with owners and other transactions		854,164	732,014	—	—	—	—	1,586,179	443,548	2,029,728
Balance as of September 30, 2023		1,919,919	10,440,799	-7,293,781	-132,906	606	-132,299	4,934,638	-10,450	4,924,187

(4) Quarterly Consolidated Statement of Cash Flows

(Unit: Thousand yen)

	Note	Nine months ended September 30, 2022	Nine months ended September 30, 2023
Cash flows from operating activities			
Profit (loss) before tax		-106,551	-896,259
Depreciation and amortization		373,804	288,468
Financial income and financial costs		65,795	65,674
Financial instrument valuation losses (gains)		-	-266,392
Foreign exchange losses (gains)		-38,280	-885,282
Gain on sale of shares of subsidiaries		-	-762,438
Decrease (increase) in trade and other receivables		-1,052,066	661,228
Increase (decrease) in trade and other payables		10,580	-513,556
Decrease (increase) in inventories		-224,912	-51,665
Decrease (increase) in contract assets		-394,890	-534,520
Other changes		541,709	440,133
Subtotal		-824,812	-2,454,610
Interest received		263	1,095
Interest paid		-50,000	-44,148
Corporate income taxes paid		-79,168	-345,158
Cash flows from operating activities		-953,717	-2,842,821
Cash flows from investing activities			
Purchase of property, plant, and equipment		-209,521	-67,652
Purchase of intangible assets		-349,670	-303,541
Purchase of subsidiaries stocks		-619,575	-
Purchase of investment securities		-	-392,919
Other		-44,158	-52,344
Cash flows from investing activities		-1,222,926	-816,457
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings		669,714	2,574,330
Proceeds from long-term borrowings		710,000	600,000
Repayments of long-term borrowings		-433,866	-473,282
Redemption of bonds		-133,500	-114,500
Repayment of lease liabilities		-289,338	-289,365
Payments for acquisition of interests in subsidiaries from non-controlling interests		-	-4,003
Issuance of new shares		566,470	1,708,329
Cash flows from financing activities		1,089,479	4,001,509
Effect of exchange rate changes on cash and cash equivalents		243,460	129,700
Net increase (decrease) in cash and cash equivalents		-843,703	471,930
Cash and cash equivalents at beginning of period		4,241,998	2,724,484
Cash and cash equivalents at end of period		3,398,295	3,196,415

(5) Notes about Quarterly Consolidated Financial Statements

1. Reporting entity

Monstarlab Holdings Inc. (the "Company") is a corporation (*kabushikikaisha*) located in Japan. The Company's registered head office is located in Shibuya-ku, Tokyo. The consolidated financial statements for the nine months ended September 30, 2023, cover the Company and its subsidiaries (collectively referred to as the "Group"). The principal business activities of the Group are described in "7. Operating Segments."

2. Basis of preparation of consolidated financial statements

(1) Compliance with IFRS

The quarterly consolidated financial statements of the Group have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting, as prescribed in Article 93 of the Regulation on the Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Order No. 64 of 2007), since the Group qualifies as a "specified company complying with designated international accounting standards" per Article 1-2 of the Regulation.

As the quarterly financial statements do not include all information required for annual consolidated financial statements, they should be used in combination with the consolidated financial statements for the fiscal year ended December 31, 2022.

The quarterly consolidated financial statements were approved by Representative Director/Group CEO Hiroki Inagawa and Director/Executive Vice President and CFO Yoshihiro Nakahara on September 14, 2023.

(2) Functional currency and presentation currency

The Group's quarterly consolidated financial statements are presented in Japanese yen, which is the Group's functional currency. All financial information presented in Japanese yen is rounded to the nearest thousand yen.

3. Material accounting policies

The material accounting policies applied to the Group's quarterly consolidated financial statements are the same as those applied to the consolidated financial statements for the previous consolidated fiscal year.

4. Significant accounting judgements, estimates, and assumptions

In preparing the Group's quarterly consolidated financial statements, management is required to make judgments, estimates, and assumptions that affect the application of the Group's accounting policies and reported amounts of income, expenses, assets, and liabilities, as well as the disclosure of contingent liabilities. However, uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the book values of assets or liabilities in future periods.

Any judgements, estimates, and assumptions that have a significant impact on the amounts of the quarterly consolidated financial statements are, in principle, the same as those pertaining to the consolidated financial statements for the previous fiscal year.

5. Fair values of financial instruments

1) Fair value measurement method

The fair values of financial instruments are measured as follows:

- a. Cash and cash equivalents, trade and other receivables, short-term loans receivable, trade and other payables, and borrowings (current liabilities)

These are valued at their book values, which approximate the fair values due to their short maturities.

- b. Equity shares

The fair values of equity shares for which an active market exists are calculated based on market price. The fair values of equity shares for which no active market exists are evaluated mainly based on the price in recent transactions between independent third parties.

- c. Leasehold and guarantee deposits

The fair values of leasehold and guarantee deposits are determined by discounting future cash flows using interest rates based on appropriate indicators, such as deposit period and government bond yields.

- d. Bonds

The fair values of bonds are determined by discounting the total amount of principal and interest using a rate that reflects the time to maturity and credit risk of the bond.

- e. Long-term borrowings

The fair values of long-term borrowings are determined by discounting the total amount of principal and interest using the assumed rate that would be applied to a similar new loan.

2) Fair value hierarchy

Fair values of financial instruments are categorized as Level 1 to Level 3 based on a fair value hierarchy as follows:

Level 1: Fair values measured by quoted prices on active markets.

Level 2: Fair values calculated using observable prices other than those included in Level 1, either directly or indirectly.

Level 3: Fair values calculated using a valuation technique that includes inputs which are not based on observable market data.

3) Financial Instruments measured at fair value on a recurring basis

(1) Fair value hierarchy

The following tables provide a breakdown of financial instruments by fair value hierarchy level.

For the fiscal year ended December 31, 2022

(Unit: Thousand yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Equity shares	—	—	245,120	245,120
Total	—	—	245,120	245,120
Liabilities:				
Financial liabilities measured with fair value through profit or loss				
Contingent consideration*	—	—	698,536	698,536
Total	—	—	698,536	698,536

For the nine months ended September 30, 2023

(Unit: Thousand yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Equity shares	—	—	2,699,663	2,699,663
Total	—	—	2,699,663	2,699,663
Liabilities:				
Financial liabilities measured with fair value through profit or loss				
Contingent consideration*	—	—	443,807	443,807
Total	—	—	443,807	443,807

* The Group may enter into an agreement to pay additional consideration for acquisition to other shareholders on the condition that the acquired subsidiary has achieved a certain level of financial results (e.g., revenue, EBITDA, retained earnings) for each fiscal year. The fair values of such contingent consideration are determined by using a discounted cash flow model or the like, based on the amounts of future payments under the agreement, and are classified as Level 3. Contingent consideration is included in “trade and other receivables” or “other non-current liabilities” in the quarterly consolidated statement of financial position.

(2) Reconciliation of Level 3 fair values

(Unit: Thousand yen)

	Equity shares	Contingent consideration
Balance as of January 1, 2022	140,047	54,739
Purchase	33,033	639,447
Sale	—	—
Comprehensive income		
Profit (loss)	—	96,560
Other comprehensive income	—	—
Other	—	—
Balance as of September 30, 2022	173,120	790,747
Gains or losses recognized in profit or loss in relation to financial instruments held on September 30, 2022	—	96,560

(Unit: Thousand yen)

	Equity shares	Contingent consideration
Balance as of January 1, 2023	245,120	698,536
Purchase	2,221,183	—
Sale	-33,033	—
Comprehensive income		
Profit (loss)	266,392	103,226
Other comprehensive income	—	—
Other		-357,955
Balance as of September 30, 2023	2,699,663	443,807
Gains or losses recognized in profit or loss in relation to financial instruments held on September 30, 2023	266,392	103,226

(3) Sensitivity analysis of changes in significant unobservable inputs

Among fair values of assets classified as Level 3 that are measured with fair value, the fair values of securities investments evaluated based on their discounted future cash flows decrease (increase) as the discount rate rises (falls).

We do not expect any significant change in the fair values of financial instruments classified as Level 3 if their unobservable inputs are replaced with alternative assumptions that may be considered reasonable.

4) Financial Instruments Measured with Amortized Cost

The book values and fair values of financial instruments measured with amortized cost are as shown below. Note that the tables below do not include financial instruments for which the book value approximates the fair value.

(Unit: Thousand yen)

	As of December 31, 2022	
	Book value	Fair value
Assets:		
Financial assets measured with amortized cost		
Other financial assets	233,231	232,606
Liabilities:		
Bonds and borrowings	3,848,849	3,831,986

(Unit: Thousand yen)

	As of September 30, 2023	
	Book value	Fair value
Assets:		
Financial assets measured with amortized cost		
Other financial assets	281,882	281,222
Liabilities:		
Bonds and borrowings	6,437,712	6,421,465

6. Revenue

Disaggregation of revenue

This information is omitted since similar information is disclosed in “7. Operating Segments.”

7. Operating segments

(1) Outline of reportable segments

The reportable segments are components of the Group for which separate financial information is available and regularly reviewed by the Board of Directors to make decisions about the allocation of management resources and evaluate business results. The Group has two reportable segments: digital consultancy business and other business. The digital consultancy business provides a full range of services, from consulting to system development and operation, to promote digital transformation (DX), which aims to transform business models using IT.

Other business includes product businesses such as RPA (robot-based business automation) tools, self-ordering systems, and music distribution business.

(2) Information on Profit by Reportable Segment

For the nine months ended September 30, 2022 (From January 1, 2022 to September 30, 2022)

(Unit: Thousand yen)

	Digital consultancy business	Other business	Total	Adjustments	Amount on quarterly consolidated financial statement
Revenue					
Revenue from external customers	9,605,292	520,213	10,125,506	366	10,125,872
Inter-segment revenue	88,146	228	88,375	-88,375	—
Total	9,693,439	520,442	10,213,881	-88,008	10,125,872
Segment profit (loss)	189,782	-93,170	96,612	-646,583	-549,971
Finance income					509,477
Finance costs					-66,058
Share of loss (profit) of entities accounted for using equity method					—
Profit (loss) before tax					-106,551

For the nine months ended September 30, 2023 (From January 1, 2023 to September 30, 2023)

(Unit: Thousand yen)

	Digital consultancy business	Other business	Total	Adjustments	Amount on quarterly consolidated financial statement
Revenue					
Revenue from external customers	9,781,608	315,088	10,096,697	13,861	10,110,558
Inter-segment revenue	35,353	—	35,353	-35,353	—
Total	9,816,962	315,088	10,132,050	-21,491	10,110,558
Segment profit (loss)	-1,758,248	740,168	-1,018,079	-476,068	-1,494,148
Finance income					664,898
Finance costs					-66,770
Share of loss (profit) of entities accounted for using equity method					-239
Profit (loss) before tax					-896,259

(3) Information by Region

The breakdown of revenue from external customers by region is as follows:

(Unit: Thousand yen)

		Nine months ended September 30, 2022	Nine months ended September 30, 2023
Digital consultancy business	APAC	5,664,536	5,363,213
	EMEA	3,096,912	3,854,180
	AMER	862,281	578,076
Other business	APAC	306,906	293,816
	AMER	195,235	21,272
Total		10,125,872	10,110,558

Figures for APAC, EMEA, and AMER are external revenues of the offices in each region.

8. Earnings per Share

(1) Basis for Calculating Basic Earnings per Share

Basic earnings per share and the basis for calculation are as follows:

(Unit: Thousand yen)

	Nine months ended September 30, 2022
Profit (loss) attributable to ordinary shareholders of parent	
Profit attributable to owners of parent	-308,884
Profit not attributable to ordinary shareholders of parent	—
Profit used for calculating earnings per share	-308,884
Average number of shares outstanding during the period	30,298,150 shares

Basic earnings (loss) per share

Basic earnings (loss) per share -10.19 yen

On January 5, 2023, the Company carried out a one-to-50 stock split based on a resolution of the Board of Directors passed at its meeting held on November 21, 2022. Basic earnings (loss) per share, and diluted earnings (loss) per share shown above are calculated based on the assumption that the stock split was carried out at the beginning of the 17th term (fiscal year ended December 2022).

(Unit: Thousand yen)

	Nine months ended September 30, 2023
Profit (loss) attributable to ordinary shareholders of parent	
Profit attributable to owners of parent	-1,090,748
Profit not attributable to ordinary shareholders of parent	—
Profit used for calculating earnings per share	-1,090,748
Average number of shares outstanding during the period	33,376,320 shares

Basic earnings (loss) per share

Basic earnings (loss) per share -32.68 yen

No transaction affecting the earnings per share took place between the end of the third quarter of the consolidated fiscal year under review and the date on which the quarterly consolidated financial statements were approved.

(2) Basis for Calculating Diluted Earnings per Share

Diluted earnings per share and the basis for calculation are as follows:

(Unit: Thousand yen)

	Nine months ended September 30, 2022
Profit (loss) attributable to ordinary shareholders (diluted)	
Profit used for calculation of basic earnings per share	-308,884
Adjustments to profit	—
Profit used for calculating diluted earnings per share	-308,884
Average number of shares outstanding during the period	30,298,150 shares
Dilutive effect	— shares
After adjustment for dilutive effect	30,298,150 shares
Diluted earnings per share	
Diluted earnings per share	-10.19 yen

On January 5, 2023, the Company carried out a one-to-50 stock split based on a resolution of the Board of Directors passed at its meeting held on November 21, 2022. Basic earnings (loss) per share, and diluted earnings (loss) per share shown above are calculated based on the assumption that the stock split was carried out at the beginning of the 17th term (fiscal year ended December 2022).

(Unit: Thousand yen)

	Nine months ended September 30, 2023
Profit (loss) attributable to ordinary shareholders (diluted)	
Profit used for calculation of basic earnings per share	-1,090,748
Adjustments to profit	—
Profit used for calculating diluted earnings per share	-1,090,748
Average number of shares outstanding during the period	33,376,320 shares
Dilutive effect	— shares
After adjustment for dilutive effect	33,376,320 shares
Diluted earnings per share	
Diluted earnings per share	-32.68 yen

No transaction affecting the earnings per share took place between the end of the third quarter of the consolidated fiscal year under review and the date on which the quarterly consolidated financial statements were approved.

9. Loss of Control

a. Nine months ended September 30, 2022 (From January 1, 2022 to September 30, 2022)

Not applicable.

b. Nine months ended September 30, 2023 (From January 1, 2023 to September 30, 2023)

Consolidation-Type Merger

(1) Outline of the consolidation-type merger

The Board of Directors of the Company resolved at its meeting held on January 20, 2023, to carry out a consolidation-type merger ("the Transaction") in which Koala Labs, Inc, a consolidated subsidiary of the Company, was the absorbed company and Chowly Merger Sub, Inc., a wholly owned subsidiary of Chowly, Inc., was the surviving company, and the Transaction was completed on January 31, 2023. As a result, the Company forfeited control of Koala Labs, Inc. and received an allotment of shares of Chowly, Inc. as consideration.

1) Name of the acquiring company and its business

Name of the acquiring company: Chowly, Inc.

Business: Provision of POS integration software for restaurant chains

2) Name of the acquired company and its business

Name of the acquired company: Koala Labs, Inc

Business: Provision of order platform products for the food and beverage industry

3) Main reason for the consolidation-type merger

The Company decided to carry out the consolidation-type merger because it anticipated synergy between Koala, an order platform product for the food and beverage industry developed by its consolidated subsidiary Koala Labs, Inc., and Chowly, Inc., which provides POS integration software targeted at restaurant chains that is a different solution from Koala, which would drive further product growth.

4) Date of consolidation-type merger

January 31, 2023

5) Legal form of business combination

Consolidation-type merger between Chowly Merger Sub, Inc. and Koala Labs, Inc. with the former as the surviving company and the latter as the absorbed company

6) Other matters concerning the transaction overview

Number of shares owned and ratio of voting rights held by the Company before and after the consolidation-type merger

	Number of shares owned	Voting rights ownership ratio
Before the consolidation-type merger	—	—
After the consolidation-type merger	2,813,756 shares	9.8%

(2) Outline of applied accounting process

1) Amount of gain (loss) on sale

768,061 thousand yen

2) Fair book values of assets and liabilities pertaining to the sold subsidiary and breakdown of major categories

Assets held for sale: 834,430 thousand yen

Total assets: 834,430 thousand yen

Liabilities directly associated with assets held for sale: 15,347 thousand yen

Total liabilities: 15,347 thousand yen

3) Accounting process

The difference between the consolidated book value of the shares of Koala Labs, Inc. and fair value of the shares of Chowly, Inc. was recognized in “Other income” in the quarterly consolidated statement of profit or loss.

10. Business Combinations

a. For the nine months ended September 30, 2022 (From January 1, 2022 to September 30, 2022)

Business combinations by acquisition

GENIEOLOGY DESIGN DMCC

(1) Outline of business combination

① Name of the acquired company and its business

Name	GENIEOLOGY DESIGN DMCC
Location	Dubai, United Arab Emirates
Title and Name of Representative	Founder: Calvin Hart Seniorteam: Cath Hoff
Business	1. Design consulting 2. Web/mobile site development 3. UI/UX improvement consulting 4. Design workshops 5. Web content management
Number of Employees	9 full time employees, 23 outsourcing partners
Date of Establishment	2018

② Reason for the business acquisition

By acquiring GENIEOLOGY DESIGN DMCC, a design consulting firm, we will expand our capability in the area of design experience in the Middle East and expand globally. Through the collaboration of projects with our subsidiary Mostarlab DMCC, we aim to increase the earnings of both companies through synergy effects.

③ Acquisition date

June 1, 2022

④ Legal form of business combination

Acquisition of shares

⑤ Acquired voting rights ratio

Voting rights ratio: 100.0%

⑥ Grounds for deciding on the acquiring company

This is due to the acquisition of shares by the Company for cash and contingent consideration.

(2) Acquisition cost of the acquired company and its breakdown

(Unit: Thousand yen)

	Amount
Cash	749,644
Fair value of contingent consideration	639,447
Total acquisition price	1,389,092

The direct acquisition cost was 7,427 thousand yen, which is included in “selling, general and administrative expenses” in the consolidated statement of profit or loss.

(3) Fair value of assets and liabilities acquired on the date of business combination and goodwill
(Unit: Thousand yen)

	Amount
Assets	
Current assets	140,892
Non-current assets	6,590
Total assets	147,483
Liabilities	
Current liabilities	179,303
Non-current liabilities	3,584
Total liabilities	182,887
Goodwill	1,424,496

Cash and cash equivalents included in assets received are 130,069 thousand yen. In addition, goodwill reflects the excess earning power resulting from the effects of business integration, including the expansion of business foundations in each market.

The Company accounted for the amount of goodwill that arose in the previous fiscal year, the amounts of assets and liabilities accepted at the date of business combination, etc., on a provisional basis. The allocation of the acquisition cost was completed during the six months ended June 30, 2023. As a result, the Company recognized current liabilities of 62,300 thousand yen, which had not been recognized by the acquired company, and the same amount of goodwill as a contra account.

(4) Revenue and profit of the acquired company

Since the date of acquisition, the acquired company's revenue recognized in the quarterly consolidated statement of profit or loss is 188,446 thousand yen, and its profit is 102,802 thousand yen.

If the business combination had been carried out at the beginning of the first nine months of the previous fiscal year, the acquired company's revenue recognized in the quarterly consolidated statement of profit or loss would have been 353,772 thousand yen, and its loss would have been 54,863 thousand yen. The pro forma information has not been audited.

- b. For the nine months ended September 30, 2023 (From January 1, 2023 to September 30, 2023)
Not applicable.

11.Subsequent Events

Not applicable.

12. Notes about Premise of a Going Concern

Not applicable.