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Key Points of Interest Expected in the 2nd Quarter (Interim Period) Financial Results for FY1/2025

We hereby announce that we have published a list of anticipated questions and answers regarding the "Consolidated Financial Results for the 2nd Quarter (Interim Period) of the Fiscal Year Ending January 31, 2025" and other materials (hereinafter, "Consolidated Financial Results for the 2nd Quarter of the Fiscal Year Ending January 31, 2025") that we announced today.

Please refer to the attached document for the anticipated questions and their corresponding answers.

Key Points of Interest Expected in the 2nd Quarter Financial Results for FY1/2025

■ 2nd Quarter Financial Results and Progress on Earnings Forecasts

Q1: Why did you revise the full-year earnings forecasts downward even though the 1st half results were higher than the forecasts?

First, concerning the current earnings forecast revision, the downward adjustments to the rate of decline in net sales, operating profit, and ordinary profit do not fall under the disclosure criteria of the Tokyo Stock Exchange. However, the upward adjustment to the growth rate of profit attributable to owners of parent does meet the disclosure criteria. As a result, the earnings forecasts include both downward and upward revisions across net sales and various profits.

The reason for the earnings forecast revision is that, as outlined on page 1 of the supplementary information to the financial results, we have adjusted our sales and profit expectations for the Domestic Solutions business. While we initially anticipated significant growth in both areas for the current fiscal year, we have revised them downward due to the completion of several large-scale e-commerce projects and the cancellation or postponement of new title developments by some game developers. In the medium term, we recognize that this downturn is only temporary, as new hardware and major software releases are on the horizon. We are actively working on securing orders for new titles to drive future growth. Additionally, we are implementing recovery measures, such as activities to receive orders for other projects to address the completion of several large e-commerce projects. However, after a conservative review of the current situation, we have revised our earnings forecast accordingly.

As indicated on page 12 of the supplementary information to the financial results, the number of employees in Overseas Solutions decreased by 541 between the end of the fourth quarter of the previous fiscal year and the end of the 2nd quarter of the current fiscal year. These personnel adjustments have contributed to a steady improvement in our profit structure. On the other hand, we have revised our earnings forecast to account for the fact that some of the business restructuring, originally planned for completion in the 1st half of the year, has been delayed until the 2nd half.

As for Media Contents, the postponement of the release of a jointly developed game resulted in the absence of amortization costs that were originally planned for the 2nd half of the year, which has boosted profits.

The revised earnings forecasts for each service are provided below.

- **Impact on Net Sales and Operating Profit by Service**

(Unit: Millions of yen)

		Forecast after revision	Initial forecast	Difference	(Difference in 1st half)	(Difference in 2nd half)
Domestic Solutions	Net sales	25,151	27,859	(2,708)	(732)	(1,975)
	Operating profit	1,801	2,426	(625)	+108	(733)
Overseas Solutions	Net sales	18,597	16,923	+1,673	1,266	+406
	Operating profit	579	555	+24	+302	(278)
Media Contents	Net sales	7,258	7,245	+13	(86)	+100
	Operating profit	(269)	(421)	+151	(48)	+200
Company-wide	Operating profit	(306)	(347)	+40	+115	(75)
Consolidated Total	Net sales	51,007	52,028	(1,021)	+447	(1,468)
	Operating profit	1,803	2,212	(408)	+478	(887)

Q2: Why is profit attributable to owners of parent increasing, even though operating profit and ordinary profit are decreasing in the revised full-year earnings forecast?

In this earnings forecast revision, profits from Domestic Solutions, which have a high taxable income, have decreased. However, profits from Media Contents, which benefits from tax loss carryforwards, and from Overseas Solutions, which have either lower tax rates than Japan or tax loss carryforwards, have increased. This has led to a reduction in tax expenses and an increase in profit attributable to owners of parent on a consolidated basis.

Q3: To what extent is the recently acquired Ghostpunch Games, LLC expected to contribute to sales and profits?

As indicated on page 3 of the supplementary information to the financial information, Ghostpunch Games, LLC (Florida, USA, hereinafter "Ghostpunch") completed its business transfer on September 1 and is expected to contribute to earnings in four months of the current fiscal year. Sales are projected to be around 500 million yen. As for profits, although the amortization of goodwill and other items may vary based on the results of the Purchase Price Allocation (PPA), we are being conservative and have not factored in any potential business synergy for this fiscal year. Instead, we have included an estimate of approximately 50 million yen in our earnings forecast. Starting from the next fiscal year, in addition to the growth of Ghostpunch's existing sales and profits, we will also enhance the Group's overall performance by leveraging our strengths in offering comprehensive, one-stop services that cater to client needs.

Q4: What about one-time expenses coming in and out each quarter when comparing quarterly results?

In the 1st quarter, we incurred 270 million yen in business restructuring expenses for the Overseas Solutions business and an additional 229 million yen in costs for joint game development in the Media Contents business, as initially planned. In the 2nd quarter, we incurred 71 million yen in business restructuring expenses for Overseas Solutions, which were included in our initial plan. Additionally, we faced an unexpected 58 million yen in provisions for receivables in the Media Contents business.

Q5: Even after the revisions, the full-year earnings forecast still seems quite challenging compared to the 1st half. Do you think it's achievable? Sales and profits in the Media Contents business in particular have increased significantly since the 1st half of the year. However, I'd like to know the likelihood of achieving the revised full-year forecast.

In the Media Contents business, we have taken several steps to strengthen our operations. To build scale and a solid foundation, we quickly merged CREST Inc. (now HIKE Inc.), QBIST Inc., and SANETTY Produce Co., Ltd., and also acquired AQUAPLUS Co., Ltd. and ShiiTAKE DiGiTAL, Ltd. We are currently integrating these companies, reorganizing unprofitable businesses, and improving and unifying our management system, all while working to launch new businesses. Despite encountering some unexpected costs along the way, we are gradually entering a phase where we can achieve stable business expansion and profitability. We remain committed to investing in growth.

Although the loss in the 1st half of the year was significant, most of it was due to one-time expenses: an additional 229 million yen for joint game development (which was within the plan) and a 58 million yen provision for receivables (which was unexpected). Excluding these one-time expenses, profitability is steadily improving, and we expect to return to quarterly profitability starting from the third quarter. Additionally, in the Domestic Solutions business, we have conservatively accounted for a temporary decline in profit margins due to new orders and market trends. In the Overseas Solutions business, we have also conservatively factored in one-time expenses for business restructuring and exchange rate fluctuations. From a group-wide perspective, we believe that the revised full-year forecast is achievable.

Consolidated operating profit for the 2nd quarter (three months) turned profitable for the first time in three quarters, exceeded 400 million yen for the first time in six quarters, and has shown a V-shaped recovery in profitability, with the fourth quarter of the previous fiscal year marking the low point. The forecast operating profit margin for the 2nd half of the year is 5.4%, which is not a particularly high hurdle given the operating profit margins achieved in the past during periods with low one-time expenses. This is part of our strategy to reach an operating profit margin of 10% by the fiscal year ending January 31, 2029.

Q6: <u>The yen has been appreciating lately. How has that impacted the financial results this time?</u>

The yen has indeed been appreciating rapidly recently. The average exchange rate used for the 2nd-quarter results was 135.99 yen per US dollar for the previous fiscal year and 152.31 yen per US dollar for the current fiscal year. In Overseas Solutions, sales grew by 1.7 billion yen, rising from 7.3 billion yen in the 2nd quarter of the previous year to 9 billion yen in the 2nd quarter of the current year. This increase includes 900 million yen from existing businesses and 800 million yen due to the depreciation of the yen.

Q7: <u>As in the previous fiscal year, a provision for receivables amounting to 58 million yen has been made for Media Contents businesss. Will similar provisions be required in the future?</u>

We apologize for any concern caused by the series of provisions. We are continuing to restructure unprofitable businesses and carefully review the assets in our Media Contents business. The amount of provisions has decreased each quarter, and we believe that we have nearly completed the restructuring process at this point.

Q8: <u>I realize it's still early, but I'm eager to know the outlook for the next term and beyond.</u>

We are currently developing detailed plans for the next fiscal year. We expect major global titles to be released in the upcoming fiscal year and beyond, which we anticipate will help revitalize the game market. While leveraging these benefits, we are working to expand sales in Japan by increasing our efforts to secure third-party verification (QA) contracts outside the gaming market. Overseas, as noted in the answer to Q3, Ghostpunch's results are expected to contribute to our full-year consolidated results. In the Media Contents business, the delivery of anime productions is on track, and the results of the stage business we acquired from DMM.com LLC is expected to contribute to overall performance. We plan to maintain a strong balance between steadily expanding our existing businesses and laying the groundwork for new businesses that will drive future growth.

■ Changes in Accounting Policies and Business Segments (Reposted from the 1st Quarter)

Q9: <u>There have been retroactive revisions to the financial results for the previous fiscal year. Could you provide details on the nature of these revisions, the reasons behind them, and their impact?</u>

The following changes in accounting policies and presentation methods have been implemented in the current fiscal year.

(1) Change in Accounting Policies (Change in the Method of Converting Profits and Expenses of Overseas Subsidiaries)

Previously, the profits and expenses of our overseas subsidiaries were converted into yen using the spot exchange rate on the financial results reporting date. However, with the recent significant fluctuations in exchange rates and the growing importance of overseas subsidiary performance—expected to increase further as we expand our overseas consumer product businesses—we have shifted to a method that converts to yen using the average exchange rate over the fiscal year. This change helps mitigate the impact of temporary exchange rate fluctuations on profit and loss and more accurately reflects the performance of our overseas subsidiaries.

(2) Change in Presentation Method (Change in Business Segment of PTW Japan Co., Ltd., etc.)

The results of PTW Japan Co., Ltd. and Delfi Sound Inc., which were previously classified under Domestic Solutions, are now included in Overseas Solutions for the current fiscal year. This is due to a change in the classification method, which is now based on management control categories rather than company location.

To reflect these changes in accounting policies and presentation methods, the figures for the previous fiscal year (ended January 2024) have been restated, and a comparative analysis has been conducted. The impact of these changes is as follows:

- **Impact on Consolidated Results**

(Before revision)

(Unit: Millions of yen)

	Previous 1Q	Previous 2Q	Previous 3Q	Previous 4Q	Total (Full Year)
Net sales	10,948	11,391	11,919	12,719	46,980
Operating profit	294	197	185	(272)	404
Ordinary profit	330	92	389	(302)	509
Profit attributable to owners of parent	95	(450)	63	(1,676)	(1,967)

(Revision Resulting from Changes in Accounting Policy)

(Unit: Millions of yen)

	Previous 1Q	Previous 2Q	Previous 3Q	Previous 4Q	Total (Full Year)
Net sales	(24)	(431)	(182)	+382	(255)
Operating profit	+3	+69	(46)	+15	+41
Ordinary profit	+0	+24	(39)	+30	+16
Profit attributable to owners of parent	+1	+31	(33)	+46	+46

(After revision)

(Unit: Millions of yen)

	Previous 1Q	Previous 2Q	Previous 3Q	Previous 4Q	Total (Full Year)
Net sales	10,924	10,960	11,737	13,102	46,724
Operating profit	298	266	138	(257)	445
Ordinary profit	331	116	350	(272)	525
Profit attributable to owners of parent	97	(418)	30	(1,629)	(1,920)

- **Impact on Net Sales and Operating Profit by Service**

(Before revision)

(Unit: Millions of yen)

		Previous 1Q	Previous 2Q	Previous 3Q	Previous 4Q	Total (Full Year)
Domestic Solutions	Net sales	6,316	6,422	6,950	7,234	26,925
	Operating profit	305	392	241	565	1,504
Overseas Solutions	Net sales	3,045	3,304	3,644	2,954	12,949
	Operating profit	68	(134)	415	(227)	123
Media Contents	Net sales	1,586	1,664	1,324	2,530	7,105
	Operating profit	12	42	(404)	(612)	(961)

(Revision Resulting from Changes in Accounting Policy)

(Unit: Millions of yen)

		Previous 1Q	Previous 2Q	Previous 3Q	Previous 4Q	Total (Full Year)
Domestic Solutions	Net sales	-	-	-	-	-
	Operating profit	-	-	-	-	-
Overseas Solutions	Net sales	(24)	(429)	(181)	+381	(253)
	Operating profit	+0	+50	(36)	+20	+35
Media Contents	Net sales	(0)	(1)	(1)	+1	(1)
	Operating profit	(0)	+2	+0	(0)	+2

(Amount of Reclassification Due to Change in Presentation Method)

(Unit: Millions of yen)

		Previous 1Q	Previous 2Q	Previous 3Q	Previous 4Q	Total (Full Year)
Domestic Solutions	Net sales	(653)	(787)	(934)	(1,024)	(3,401)
	Operating profit	+22	+30	+11	(57)	+7
Overseas Solutions	Net sales	+653	+787	+934	+1,024	+3,401
	Operating profit	(25)	(70)	(17)	+86	(27)
Media Contents	Net sales	-	-	-	-	-
	Operating profit	-	-	-	-	-

(After revision)

(Unit: Millions of yen)

		Previous 1Q	Previous 2Q	Previous 3Q	Previous 4Q	Total (Full Year)
Domestic Solutions	Net sales	5,663	5,634	6,015	6,209	23,523
	Operating profit	327	422	253	507	1,511
Overseas Solutions	Net sales	3,675	3,662	4,398	4,360	16,096
	Operating profit	43	(154)	362	(120)	130
Media Contents	Net sales	1,586	1,662	1,323	2,531	7,104
	Operating profit	12	44	(404)	(612)	(959)

[Disclaimer]

This document and information contain so-called "forward-looking statements."

These forward-looking statements are based on current expectations, forecasts, and assumptions that are subject to risks and uncertainties, which may cause actual results to differ substantially from these statements.

These risks and uncertainties include general industry and market conditions as well as domestic and international economic conditions, such as interest rates and currency exchange fluctuations.

The Company has no obligation to update or correct the forward-looking statements contained in this material, regardless of any new information, future events, etc.