

Consolidated Financial Results For the Nine Months Ended October 31, 2021 (Japanese Accounting Standards)

Name of the Listed Company: **Poletowin Pitcrew Holdings, Inc.**
 Listing: First Section of Tokyo Stock Exchange
 Stock code: 3657
 URL: <https://www.poletowin-pitcrew-holdings.co.jp>
 Representative: Teppei Tachibana, President & CEO
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Scheduled date to file Quarterly Securities Report: December 9, 2021

Scheduled date to commence dividend payments: —

Supplementary explanatory materials prepared: Yes

Explanatory meeting: No

(Millions of yen with fractional amounts discarded, unless otherwise noted.)

1. Consolidated financial results for the Nine months ended October 31, 2021 (from February 1, 2021 to October 31, 2021)

(1) Consolidated operating results (Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Attributable to: Shareholders of the parent company Net income per share	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
October 31, 2021	24,334	26.7	2,422	8.6	2,428	- 1.6	1,624	5.8
October 31, 2020	19,203	1.9	2,231	- 13.2	2,468	- 0.6	1,535	4.1

(Note) Comprehensive income

Nine months ended October 31, 2021: ¥1,883 million yen / 52.1%

Nine months ended October 31, 2020: ¥1,237 million yen / -16.6%

	Net income per share	Diluted net income per share
Nine months ended	Yen	Yen
October 31, 2021	42.87	—
October 31, 2020	40.55	40.53

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
October 31, 2021	22,443	17,065	76.0
January 31, 2021	20,389	15,675	76.9

(Reference) Equity

As of October 31, 2021: ¥17,065 million yen

As of January 31, 2021: ¥15,671 million yen

2. Cash dividends

	Cash dividends per share				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended January 31, 2021	–	0.00	–	13.00	13.00
Fiscal year ending January 31, 2022	–	0.00	–		
Fiscal year ending January 31, 2022 (Forecasts)				14.00	14.00

(Notes) Change in dividend forecasts for the fiscal year ending January 31, 2022 during the Nine months ended October 31, 2021: No

3. Consolidated financial forecasts for the fiscal year ending January 31, 2022 (from February 1, 2021 to January 31, 2022)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending January 31, 2022	33,224	24.3	3,535	9.9	3,539	- 1.6	2,157	1.7	56.53

(Note) Change in financial forecasts for the fiscal year ending January 31, 2022 during the Nine months ended October 31, 2021: No

* Notes:

(1) Changes in significant subsidiaries during the Nine months ended October 31, 2021 (changes in specified subsidiaries resulting in a change in the scope of consolidation) : No

(2) Use of particular accounting treatments in preparation of quarterly consolidated financial statements : Yes

(3) Changes in accounting policies, changes in accounting estimates, and restatement of revisions

- a. Changes in accounting standards due to revisions to accounting standards and other guidelines : No
- b. Changes in accounting policies due to reasons other than a. above : No
- c. Changes in accounting estimates : No
- d. Restatement of revisions : No

(4) Number of common shares issued

a. Total number of issued shares at the end of the period (including treasury stock)

As of October 31, 2021 : 38,156,000 shares

As of January 31, 2021 : 38,156,000 shares

b. Number of shares of treasury stock at the end of the period

As of October 31, 2021 : 270,702 shares

As of January 31, 2021 : 269,734 shares

c. Average number of shares (Cumulative)

For the Nine months ended October 31, 2021 : 37,886,118 shares

For the Nine months ended October 31, 2020 : 37,858,126 shares

* This report falls outside the scope of quarterly review procedures of a certified public accountant or an audit firm.

* Proper use of earnings forecasts, and other special matters

(Disclaimer to forward-looking statements)

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. These statements do not guarantee that the Company will achieve its earnings forecasts. In addition, actual business and other results may differ substantially due to various factors. For details on the conditions assumed and the cautionary notes and items in the financial forecasts, please refer to “Qualitative Information on Consolidated Earnings Forecasts” on page 5 of this report.

(How to obtain supplementary materials explaining earnings for the quarter)

The Company discloses the Supplementary Information to the Financial Results on the TDnet on the same day.

Table of Contents

1. Qualitative Information on Financial Results	2
(1) Analysis of Operating Results.....	2
(2) Analysis of Financial Position	3
(3) Qualitative Information on Consolidated Earnings Forecasts.....	3
2. Consolidated Financial Statements.....	4
(1) Consolidated Balance Sheets	4
(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income.....	6
Consolidated Statements of Income	6
<i>(Nine-month period ended October 31, 2021)</i>	6
Consolidated Statement of Comprehensive Income	7
<i>(Nine-month period ended October 31, 2021)</i>	7
(3) Notes to Consolidated Financial Statements.....	8
(Notes on Going Concern Assumption)	8
(Notes on Significant Changes in Shareholders' Equity)	8
(Use of particular accounting treatments in preparation of quarterly consolidated financial statements)	8
(Segment Information)	9

1. Qualitative Information on Financial Results

(1) Analysis of Operating Results

During the third quarter of the consolidated fiscal year under review, the Japanese economy is expected to pick up, partly due to the effects of various policies and improvements in overseas economies, while taking thorough countermeasures against COVID-19 and promoting vaccinations. However, it is necessary to pay close attention to downside risks due to the impact through the supply chain, and the impact of trends in COVID-19 in Japan and overseas, as well as fluctuations in financial and capital markets.

Under these economic conditions, in the markets related to Poletowin Pitcrew Holdings Group's core Testing/Verification & Evaluation Business, the game software market is expanding due to voluntary restraint from going out as a result of the global spread of COVID-19, while the hardware market is being affected by the shortage of semiconductors. On the other hand, in the related markets of the Internet Support Business, similarly, the e-commerce and cashless settlement markets, which are non-face-to-face and contactless services, are expanding. In addition, the spread of COVID-19 is encouraging schools to move classes online, and the government's GIGA school initiative's importance is increasing.

The Group provides checking, testing, monitoring and inspection services that requires human input on a contractual basis to corporate clients. The demand for such outsourcing services has been growing as client's business has diversified and have expanded overseas. Another reason behind this is that business processes have become more advanced and sophisticated. As new services are created in the market, both Testing/Verification & Evaluation Business and Internet Supporting Business, are seeing new business opportunities. During the third quarter of the consolidated fiscal year under review, the Company relocated its head office and increased the floor space in February in order to consolidate the sales and administrative departments of the Company and its major subsidiaries into the same office. In addition, the Company absorbed and merged with Pacer Inc., an intermediate holding company, in March in order to improve operating efficiency. In February, Pole To Win Co., Ltd. transferred its business related to tuning game difficulty and other aspects and development support to CREST Inc., with the aim of expanding its media contents-related business. In July, MSD Holdings Inc. became a subsidiary, for the purpose of undertaking software and system development other than games, as well as third-party verification services. In April, QBIST Inc. and CREST Inc. relocated their headquarters to the same building and increased the floor space in order to improve synergy in the media contents business field of both companies. QBIST Inc. made Panda Graphics Inc. a subsidiary in August with the aim of increasing its share of the game graphics contract development market. In August, ENTALIZE CO., Ltd. made Delfi Sound Inc. a subsidiary in order to improve its ability to handle voice recording. PITCREW CO., LTD. opened the Niigata Service Center in July and relocated and increased the floor space of the Sendai Service Center in anticipation of increased orders in the future. PITCREW CO., LTD. also absorbed and merged IMAid Inc. to consolidate and streamline operating resources. Overseas, OneXP LLC (a U.S. subsidiary), OneXP UK Limited (a U.K. subsidiary), 1518 Studios Rus LLC (a Russian subsidiary), and SIDE France SAS (a French subsidiary) were established for the purpose of business expansion. Through the collaboration between domestic bases and 21 overseas bases in 12 countries, we promoted the provision of "one-stop full services" such as testing, localization, voice recording, game development and marketing support, monitoring, and customer support on a global scale.

As a result of these factors, consolidated net sales for the term were ¥24,334,894 thousand (up 26.7%). Operating profit was ¥2,422,613 thousand (up 8.6%). Ordinary profit was ¥2,428,968 thousand (down 1.6%) and Profit attributable to owners of parent was ¥1,624,160 thousand (up 5.8%).

Results by segment were as follows.

Testing/Verification & Evaluation Business

By promoting collaboration between domestic and overseas group companies the group strived to support global deployment for domestic and foreign game makers, and promoted orders for outsourcing services such as defect detection, localization customer support (overseas) and voice recording, etc. for game software developers. At Qaas Inc., orders for third-party verification services in the non-game market increased. At QBIST Inc., colorful Inc., Panda Graphics Inc. and CREST Inc. promoted the expansion of media contents business related to graphics, game, and animation production. CREST Inc. released “ARIA CHRONICLE” (Nintendo Switch version) in July and “METALLIC CHILD” (Nintendo Switch and Steam versions) in September. In addition, Pole To Win Co., Ltd. received orders to create ICT environment at schools for the GIGA School Project. Specifically, preparing kitting service for tablets. As a result, Testing/Verification & Evaluation Business sales increased by 29.3 % year on year, to ¥18,641,108 thousand. However, due to an increase in one-time expenses related to M&A and upfront expenses related to the expansion of the media content business, including game and animation production, operating profit decreased by 3.9% to ¥1,821,667 thousand yen.

Internet Supporting Business

In the Internet Supporting Business, the Group increased orders for monitoring fraud for FinTech related services such as QR code settlement and virtual currency. Services related to identity verification, detection of anti-money laundering and behaviour method also increased orders. Also, there was an increase in orders for data recognition evaluation in AI-related services and customer support for the game market through collaborating sales activities with Testing/Verification & Evaluation. In addition, PITCREW CO., LTD. received orders for ICT environment design and other services as a school ICT support provider under the government's GIGA School Project. As a result, Internet Supporting Business sales increased by 18.0%, to ¥5,498,496 thousand. Operating profit increased by 62.7%, to ¥604,802 thousand.

Other

Palabra Inc. provide services to produce barrier-free subtitles audio guides for television program and movies to prepare for the advent of barrier-free motion pictures. PITCREW CO., LTD. has taken over the business of the former IMAid Inc. and provides support services such as visa obtainment, school enrollment and daily life procedures for foreign personnel working in medical institutes. The sales resulted in an increase of 51.6% to ¥195,289 thousand and operating loss of ¥24,507 thousand, down from operating loss of ¥97,535 thousand a year earlier.

(2) Analysis of Financial Position

Total Assets

Current assets decreased by ¥391,080 thousand or 2.3% from the previous fiscal year-end, to ¥16,711,468 thousand. This was mainly due to a decrease of ¥1,393,828 thousand in cash and deposits, despite increases of ¥743,838 thousand in notes and accounts receivable-trade and ¥227,543 thousand in other current assets (mainly advance payments).

Non-current assets increased by ¥2,445,550 thousand, or 74.4% from the previous fiscal year-end, to ¥5,732,327 thousand. The key factor was an increase of ¥1,912,084 thousand in goodwill and ¥339,937 thousand in deferred tax assets.

As a result, total assets increased by ¥2,054,469 thousand, or 10.1% from the previous fiscal year-end, to ¥22,443,795 thousand.

Liabilities

Current liabilities increased by ¥419,514 thousand, or 9.4% from the previous fiscal year-end, to ¥4,873,521 thousand. This was mainly due to increases of ¥472,029 thousand in accounts payable-other, ¥359,621 thousand in accrued expenses, and ¥201,728 thousand in provision for bonuses, despite decreases of ¥504,774 thousand in income taxes payable and ¥134,848 thousand in other current liabilities (mainly advance received). Non-current liabilities increased by ¥244,285 thousand, or 93.9% from the previous fiscal year-end, to ¥504,514 thousand. This was mainly due to an increase of ¥238,180 thousand in long-term borrowings.

As a result, total liabilities increased by ¥663,799 thousand, or 14.1% from the end of the previous fiscal year, to ¥5,378,036 thousand.

Net Assets

Net assets increased by ¥1,390,669 thousand, or 8.9% from the previous fiscal year-end, to ¥17,065,759 thousand. This was mainly due to an increase of ¥1,131,638 thousand in retained earnings and ¥258,531 thousand in foreign currency translation adjustment as a result of the payment for quarterly net profit attributable to owners of parent and dividend payment.

(3) Qualitative Information on Consolidated Earnings Forecasts

During the third quarter of the consolidated fiscal year under review, both net sales and profits were generally in line with the plan. For the fourth quarter and onward, as the business performance is expected to be largely in line with the plan, the management retained the consolidated earnings forecasts that disclosed on September 3, 2021.

Note, however, that the earnings forecasts are based on information currently available to the Company and on certain assumptions deemed to be reasonable. These statements do not guarantee that the Company will achieve its earnings forecasts. In addition, actual business and other results may differ substantially due to various factors.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Thousands of yen)

	Fiscal 2021 As of January 31, 2021	3Q Fiscal 2022 As of October 31, 2021
Assets		
Current assets		
Cash and deposits	11,158,548	9,764,720
Notes and accounts receivable - trade	4,504,541	5,248,379
Merchandise and finished goods	861	214
Work in process	172,920	220,851
Other	1,308,165	1,535,709
Allowance for doubtful accounts	- 42,488	- 58,406
Total current assets	17,102,548	16,711,468
Non-current assets		
Property, plant and equipment		
Buildings and structures	893,190	1,091,332
Accumulated depreciation	- 544,376	- 665,954
Buildings and structures, net	348,814	425,378
Machinery, equipment and vehicles	23,081	25,852
Accumulated depreciation	- 15,860	- 19,371
Machinery, equipment and vehicles, net	7,221	6,480
Tools, furniture and fixtures	1,616,860	1,850,606
Accumulated depreciation	- 1,294,048	- 1,414,886
Tools, furniture and fixtures, net	322,812	435,719
Other	15,306	—
Total property, plant and equipment	694,154	867,578
Intangible assets		
Goodwill	511,654	2,423,739
Software	225,961	261,078
Other	202,538	203,027
Total intangible assets	940,155	2,887,845
Investments and other assets		
Investment securities	654,071	620,861
Leasehold and guarantee deposits	751,910	743,116
Deferred tax assets	195,008	534,945
Other	128,470	175,474
Allowance for doubtful accounts	- 76,994	- 97,494
Total investments and other assets	1,652,466	1,976,903
Total non-current assets	3,286,776	5,732,327
Total assets	20,389,325	22,443,795

Poletowin Pitcrew Holdings, Inc.
(3657) Consolidated Financial Results for the Nine Months Ended October 31, 2021

(Thousands of yen)

	Fiscal 2021 As of January 31, 2021	3Q Fiscal 2022 As of October 31, 2021
Liabilities		
Current liabilities		
Short-term borrowings	4,540	—
Current portion of long-term borrowings	7,620	37,918
Accounts payable - other	2,067,679	2,539,709
Accrued expenses	216,301	575,922
Income taxes payable	970,324	465,550
Provision for bonuses	56,339	258,068
Other	1,131,201	996,353
Total current liabilities	4,454,007	4,873,521
Non-current liabilities		
Long-term borrowings	34,365	272,545
Retirement benefit liability	96,572	112,014
Deferred tax liabilities	31,950	27,179
Other	97,340	92,775
Total non-current liabilities	260,228	504,514
Total liabilities	4,714,236	5,378,036
Net assets		
Shareholders' equity		
Share capital	1,239,064	1,239,064
Capital surplus	2,379,899	2,379,899
Retained earnings	12,372,175	13,503,813
Treasury shares	- 167,696	- 167,784
Total shareholders' equity	15,823,442	16,954,993
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	48,373	52,910
Foreign currency translation adjustment	- 200,676	57,855
Total accumulated other comprehensive income	- 152,303	110,766
Non-controlling interests	3,950	—
Total net assets	15,675,089	17,065,759
Total liabilities and net assets	20,389,325	22,443,795

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

Consolidated Statements of Income

(Nine-month period ended October 31, 2021)

(Thousands of yen)

	Nine months ended October 31, 2020	Nine months ended October 31, 2021
Net sales	19,203,644	24,334,894
Cost of sales	13,479,842	17,305,847
Gross profit	5,723,802	7,029,047
Selling, general and administrative expenses	3,492,627	4,606,433
Operating profit	2,231,175	2,422,613
Non-operating income		
Subsidy income	135,085	99,273
Insurance surrender value	106,643	—
Other	18,622	15,385
Total non-operating income	260,351	114,658
Non-operating expenses		
Interest expenses	1,838	1,060
Foreign exchange losses	17,034	46,510
Share of loss of entities accounted for using equity method	—	47,420
Other	4,420	13,313
Total non-operating expenses	23,292	108,304
Ordinary profit	2,468,234	2,428,968
Extraordinary losses		
Loss on retirement of non-current assets	—	47,419
Loss on valuation of investment securities	—	63,018
Total extraordinary losses	—	110,438
Profit before income taxes	2,468,234	2,318,530
Income taxes	991,350	698,278
Profit	1,476,883	1,620,252
Loss attributable to non-controlling interests	- 58,365	- 3,907
Profit attributable to owners of parent	1,535,249	1,624,160

Consolidated Statement of Comprehensive Income
(Nine-month period ended October 31, 2021)

(Thousands of yen)

	Nine months ended October 31, 2020	Nine months ended October 31, 2021
Profit	1,476,883	1,620,252
Other comprehensive income		
Valuation difference on available-for-sale securities	- 117,175	4,537
Foreign currency translation adjustment	- 121,714	242,574
Share of other comprehensive income of entities accounted for using equity method	—	15,915
Total other comprehensive income	- 238,889	263,027
Comprehensive income	1,237,993	1,883,279
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,296,526	1,887,229
Comprehensive income attributable to non-controlling interests	- 58,532	- 3,950

(3) Notes to Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Use of particular accounting treatments in preparation of quarterly consolidated financial statements)

(Calculation of income taxes payable)

The tax expenses of the Group and certain consolidated subsidiaries are estimated reasonably based on effective tax rates after applying tax effect accounting for income before income taxes and minority interests for the consolidated fiscal year, including the third quarter under review, multiplying quarterly income before income taxes and minority interests by the relevant estimated effective tax rate.

(Segment Information)

1. Nine months ended October 31, 2020 (from February 1, 2020 to October 31, 2020)

(1) Net sales and income (loss) by reporting segment

(Thousands of yen)

	Reporting segment			Others* ¹	Total	Adjustments* ²	Per quarterly consolidated financial statements* ³
	Testing/ Verification & Evaluation Business	Internet Supporting Business	Total				
Sales							
Revenues from external customers	14,414,067	4,660,750	19,074,818	128,826	19,203,644	—	19,203,644
Transactions with other segments	809	143,561	144,370	—	144,370	- 144,370	—
Net sales	14,414,876	4,804,311	19,219,188	128,826	19,348,015	- 144,370	19,203,644
Segment profit or loss	1,895,938	371,623	2,267,562	- 97,535	2,170,026	61,148	2,231,175

- *Notes: 1. Others covers operations not included in reporting segments, and mainly encompasses the publishing, media and medical personnel related businesses.
2. Adjustment for segment profit (loss) of ¥61,148 thousand comprises elimination of intersegment transactions of ¥567,886 thousand and unallocated corporate expenses of - ¥506,738 thousand. Unallocated corporate expenses are mainly general administrative expenses.
3. Segment profit (loss) is adjusted against the operating profit recorded in the consolidated statements of income.

(2) Information regarding impairment losses on fixed assets and goodwill by reporting segment

Not applicable

2. Nine months ended October 31, 2021 (from February 1, 2021 to October 31, 2021)

(1) Net sales and income (loss) by reporting segment

(Thousands of yen)

	Reporting segment			Others* ¹	Total	Adjustments* ²	Per quarterly consolidated financial statements* ³
	Testing/ Verification & Evaluation Business	Internet Supporting Business	Total				
Sales							
Revenues from external customers	18,641,108	5,498,496	24,139,605	195,289	24,334,894	—	24,334,894
Transactions with other segments	8,180	156,854	165,035	—	165,035	-165,035	—
Net sales	18,649,289	5,655,351	24,304,641	195,289	24,499,930	- 165,035	24,334,894
Segment profit or loss	1,821,667	604,802	2,426,469	- 24,507	2,401,961	20,652	2,422,613

- *Notes: 1. Others covers operations not included in reporting segments, and mainly encompasses the publishing, media and medical personnel related businesses.
2. Adjustment for segment profit (loss) of ¥20,652 thousand comprises elimination of intersegment transactions of ¥645,502 thousand and unallocated corporate expenses of - ¥624,849 thousand. Unallocated corporate expenses are mainly general administrative expenses.
3. Segment profit (loss) is adjusted against the operating profit recorded in the consolidated statements of income.

(2) Information regarding impairment losses on fixed assets and goodwill by reporting segment

Not applicable