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May 13, 2022

TEMONA. Inc.
Earnings Report for the Second Quarter of the Fiscal Year Ending September 30, 2022
[Japanese GAAP] (Consolidated)

Stock listings: Tokyo Stock Exchange (Prime Market)
Securities code: 3985
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Scheduled dates
Filing of statutory quarterly financial report: May 13, 2022
Dividend payout: -
Supplementary materials to financial results available: Yes
Quarterly earnings presentation held: Yes (for institutional investors and analysts)

(Amounts rounded down to the nearest million yen)

1. Financial Results for the Six Months Ended March 31, 2022
(October 1, 2021 to March 31, 2022)

(1) Operating Results (Percentage figures represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Six Months Ended								
Mar. 31, 2022	953	-	57	-	49	-	15	-
Mar. 31, 2021	-	-	-	-	-	-	-	-

Note: Comprehensive income Six months ended Mar. 31, 2022: ¥15 million [-%]
Six months ended Mar. 31, 2021: ¥ - million [-%]

	Basic earnings per share	Diluted earnings per share
Six Months Ended		
Mar. 31, 2022	1.43	1.42
Mar. 31, 2021	-	-

- Notes: 1. "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. have been applied effective from the beginning of the first quarter of the fiscal year ending September 30, 2022, and the figures for the six months ended March 31, 2022, have been calculated with application of said accounting standard, etc.
2. The Company started preparing quarterly consolidated financial statements from the second quarter of the fiscal year ending September 30, 2022. For this reason, operating results for the six months ended March 31, 2021, and year-on-year changes are not presented.

(2) Financial Position

	Total assets	Net assets	Equity ratio
	¥ million	¥ million	%
As of Mar. 31, 2022	2,092	1,376	65.5
As of Sep. 30, 2021	-	-	-

Reference: Total shareholders' equity: Mar. 31, 2022: ¥1,370 million Sep. 30, 2021: ¥ - million

- Notes: 1. "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. have been applied effective from the beginning of the first quarter of the fiscal year ending September 30, 2022, and the figures for the six months ended March 31, 2022, have been calculated with application of said accounting standard, etc.
2. The Company started preparing quarterly consolidated financial statements from the second quarter of the

fiscal year ending September 30, 2022. For this reason, financial position as of September 30, 2021 is not presented.

2. Dividends

	Annual dividends per share				
	End-first quarter	End-second quarter	End-third quarter	Fiscal year-end	Annual total
	¥	¥	¥	¥	¥
FY Ended Sep. 30, 2021	—	0.00	—	0.00	0.00
FY Ending Sep. 30, 2022	—	0.00			
FY Ending Sep. 30, 2022 (Forecast)			—	0.00	0.00

Note: No changes were made to the latest release of dividend forecasts.

3. Consolidated Earnings Forecast for the Fiscal Year Ending September 30, 2022 (October 1, 2021 to September 30, 2022)

(Percentage figures represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent		Basic earnings per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	2,394	-	204	-	204	-	133	-	12.49

Notes: 1. No changes were made to the latest release of consolidated earnings forecasts.

2. The Company did not prepare consolidated financial statements for the fiscal year ended September 30, 2021. For this reason, year-on-year changes are not provided herein.

Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Use of accounting methods specific to preparation of the quarterly financial statements: Yes
 Note: For details, please see "(Use of accounting methods specific to preparation of the quarterly consolidated financial statements)" under "(4) Notes on the Financial Statements" on page 11 in section "2. Consolidated Financial Statements and Main Notes" in the Accompanying Materials.
- (3) Changes in accounting policy, changes in accounting estimates, and retrospective restatement:
 - 1) Changes in accordance with amendments to accounting standards: Yes
 - 2) Changes other than the above 1): None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Number of shares issued (common stock)
 - 1) Number of shares issued at end of period (treasury shares included):
 - March 31, 2022: 11,389,592 shares
 - September 30, 2021: 11,389,592 shares
 - 2) Number of shares held in treasury at end of period:
 - March 31, 2022: 745,317 shares
 - September 30, 2021: 745,317 shares
 - 3) Average number of shares outstanding during the period:
 - March 31, 2022: 10,644,275 shares
 - March 31, 2021: 10,574,026 shares

Note. The Company has introduced a "Board Benefit Trust" and an "Employees Benefit Trust." The Company's shares held by these trusts (September 30, 2021: 744,500 shares, March 31, 2022: 744,500 shares) are included in the number of treasury shares.

* Quarterly earnings reports are exempt from quarterly reviews by certified public accountants and the accounting auditor.

***Appropriate Use of Earnings Forecasts and Other Important Information**

The above forecasts, which constitute forward-looking statements, are based on information available to the Company as of the date of the release of this document. These forward-looking statements are not guarantees of future performance, and actual results may differ materially from those expressed or implied herein due to a range of factors. For the assumptions underlying the forecasts herein and other notice on the use of earnings forecasts, please refer to “(3) Consolidated Earnings Forecast and Other Forward-Looking Statements” on page 5 in section “1. Explanation of Operating Results and Financial Position” in the Accompanying Materials.

(Supplementary materials to quarterly financial results)

Supplementary materials to the quarterly financial results (Fact Sheets) will be posted on the Company's website on May 13, 2022.

Accompanying Materials

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1. Explanation of Operating Results and Financial Position

(1) Operating Results

Forward-looking statements in this document are based on information available to the Company as of the last day of the second quarter of the fiscal year ending September 30, 2022.

The Company completed the acquisition of 100% of the shares of AIS Inc. on March 1, 2022. Accordingly, the Company has begun preparing quarterly consolidated financial statements starting from the second quarter of the fiscal year ending September 30, 2022. Comparisons with the same period of the previous year are comparisons of the cumulative results of the first two quarters of the fiscal year. In addition, as the deemed acquisition date for the AIS Inc. acquisition was the last day of the second quarter of the fiscal year ending September 30, 2022, AIS Inc. is included only in the balance sheet of the consolidated financial statements for the second quarter of the fiscal year ending September 30, 2022, and its business results are not included.

(1) Operating Results and Financial Position

1. Analysis of Operating Results

In the six months ended March 31, 2022, the Japanese economy remained hampered by the prolonged impact of the COVID-19 pandemic. Meanwhile, the destabilization of the global geopolitical situation and rising resource prices caused by the Ukraine crisis have added to the uncertainty clouding the economic outlook. According to a Ministry of Economy, Trade and Industry survey on the domestic e-commerce market, a market connected with the Company's business, business-to-consumer e-commerce ("B2C-EC") market transactions in 2020 decreased 0.43% year on year to 19.3 trillion yen while business-to-business e-commerce ("B2B-EC") market transactions fell 5.1% to 334.9 trillion yen.

Meanwhile, the e-commerce ratio*¹, which is an indicator of the market penetration of e-commerce, continued to increase, rising to 8.08% for B2C-EC and 33.5% for B2B-EC, and the digitalization of commercial transactions is expected to continue to advance. In recent years, the continued rise in customer acquisition costs owing to population decline and other factors has boosted demand for subscription businesses, such as cloud-based businesses.

In the current business environment, the Company believes that it can contribute to society through the provision of comprehensive support for subscription businesses (which can facilitate the securing of steady revenue even in the midst of worsening economic conditions) and through helping companies to operate such businesses successfully. It is with this in mind that the Company has formulated a new medium-term management plan. The fiscal year ending September 30, 2022, is the first year covered by the medium-term management plan. During this initial fiscal year, the Company will work to reinforce its business foundations for further growth. This will involve investing in engineer personnel to expand the Company's target areas and investing in the recruitment of human resources to expand the areas of support that the Company provides.

The following is a breakdown of revenue generated by each of the services provided by the E-Commerce Support Business, the Company's only reportable segment. The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the first quarter of the fiscal year ending September 30, 2022, and all figures for the first six months of the fiscal year have been calculated with application of this accounting standard. As the application of this new accounting standard significantly affects the Company's sales recorded in the first six months of the current fiscal year, the year-on-year comparisons in the table below do not include absolute or percentage year-on-year changes.

(Unit: ¥ thousand)

Service	Revenue category	Six Months ended March 31, 2021		Six Months ended March 31, 2022		
		Amount	Weighting (%)	Amount	Weighting (%)	
a	Subsc-Store	Recurring revenue	168,569	13.3	200,255	21.0
		Contract development revenue	85,663	6.7	42,624	4.5
		Other revenue	93,201	7.3	39,726	4.2
	Tamago Repeat	Recurring revenue	285,600	22.5	239,689	25.1
		Contract development revenue	149	0.0	-	-
		Other revenue	124,326	9.8	29,974	3.1
Subtotal		757,509	59.7	552,270	57.9	
b	Payment fees	GMV-linked revenue	439,410	34.6	282,037	29.6
c	Others	Recurring revenue	12,209	1.0	17,261	1.8
		Contract development revenue	48,525	3.8	94,602	9.9
		Other revenue	11,825	0.9	6,971	0.7
	Subtotal		72,560	5.7	118,835	12.5
Total (a+b+c)		1,269,480	100.0	953,143	100.0	

The following explanation of first-half business results compares the results under the new accounting standard with the previous year's first-half results (non-audited) recalculated based on the new accounting standard for comparative purposes only.

(Unit: ¥ thousand)

Service	Revenue category	Six Months ended March 31, 2021		Six Months ended March 31, 2022		Change	Change (%)	
		Amount	Weighting (%)	Amount	Weighting (%)			
a	Subsc-Store	Recurring revenue	151,945	15.0	200,255	21.0	48,309	31.8
		Contract development revenue	85,663	8.5	42,624	4.5	(43,038)	(50.2)
		Other revenue	53,873	5.3	39,726	4.2	(14,147)	(26.3)
	Tamago Repeat	Recurring revenue	276,750	27.4	239,689	25.1	(37,060)	(13.4)
		Contract development revenue	149	0.0	-	-	(149)	(100.0)
		Other revenue	65,122	6.4	29,974	3.1	(35,148)	(54.0)
Subtotal		633,504	62.7	552,270	57.9	(81,233)	(12.8)	
b	Payment fees	GMV-linked revenue	305,424	30.2	282,037	29.6	(23,387)	(7.7)
c	Others	Recurring revenue	11,682	1.2	17,261	1.8	5,578	47.8
		Contract development revenue	48,525	4.8	94,602	9.9	46,077	95.0
		Other revenue	11,616	1.1	6,971	0.7	(4,645)	(40.0)
	Subtotal		71,824	7.1	118,835	12.5	47,010	65.5
Total (a+b+c)		1,010,753	100.0	953,143	100.0	(57,610)	(5.7)	

- a. Subsc-Store and Tamago Repeat service user accounts totaled 1,086, down 3.1% year on year, and generated revenue totaling 552,270 thousand yen during the period, 12.8% less than in the same period of the previous fiscal year.

Subsc-Store service user accounts totaled 494, a 21.7% increase from a year earlier, generating recurring revenue*² of 200,255 thousand yen, a year-on-year increase of 31.8%. Contract development revenue*³, however, declined 50.2% year on year to 42,624 thousand yen owing to delays in the receipt of orders and related operations.

Tamago Repeat service user accounts totaled 592, down 17.2% year on year, reflecting the halt in new sales of this service as the Company is focusing on sales of the successor service, Subsc-Store. Recurring revenue totaled 239,689 thousand yen, down 13.4% year on year. Sales of the optional service Chatbot also fell, resulting in other revenue totaling 29,974 thousand yen, down 54.0% year on year.

- b. The gross transaction volume of services provided by the Temona Group totaled 74.8 billion yen, down 2.8% year on year, reflecting the continued decrease in transaction volume of cosmetic products owing to fewer opportunities for people to go out during the COVID-19 pandemic. GMV-linked revenue*⁴ totaled 282,037 thousand yen, down 7.7% year on year, owing to customers' increased use of payment methods with low commission rates.
- c. Revenue from "Others" increased 65.5% year on year to 118,835 thousand yen. The Company's Subsc-@ service targeted at physical stores continued its efforts to develop new clients. As a result, its total number of accounts (corporate contracts) increased to 160, a 451.7% expansion from a year earlier. The service's recurring revenue also increased, rising 47.8% year on year to 17,261 thousand yen. In addition, webpage production services related to Subsc-@ are expanding steadily, generating contract development revenue of 94,602 thousand yen, up 95.0% year on year.

As a result of the above factors, total net sales for the six months ended March 31, 2022, came to 953,143 thousand yen, down 5.7% year on year.

Cost of sales increased 10.3% to 281,738 thousand yen, largely owing to increased outsourcing expenses. Selling, general and administrative expenses totaled 614,330 thousand yen, 23.9% more than a year earlier, owing to an increase in personnel expenses related to increased investment in human resources aimed at strengthening the Company's business foundation and to expenses related to share acquisitions.

As a result, operating profit for the six months ended March 31, 2022, came to 57,074 thousand yen, down 78.0% year on year, ordinary profit totaled 49,108 thousand yen, down 81.1%, and profit for the period was 15,276 thousand yen, down 90.5%.

*1. E-commerce ratio is the ratio of B2C/B2B e-commerce transaction value to total B2C/B2B market transaction value.

*2. Recurring revenue: Revenue from services with fixed monthly rates charged for the number of months used.

*3. Contract development revenue: Revenue from contract development, such as customization of the Company's system.

*4. GMV-linked revenue: Revenue from services with variable fees linked to client GMV.

(2) Financial Position

1. Analysis of Assets, Liabilities, and Net Assets

Assets

Consolidated assets at March 31, 2022, totaled 2,092,187 thousand yen, a 96,780 thousand yen decrease from September 30, 2021, the end of the previous fiscal year. The decrease mainly reflects a 189,090 thousand yen reduction in cash and deposits related to the acquisition of AIS Inc. shares and the repayment of loans payable, which was partially offset by the posting of 43,800 thousand yen in goodwill.

Liabilities

Consolidated liabilities at March 31, 2022, totaled 715,618 thousand yen, a 112,017 thousand yen decrease from September 30, 2021. The decrease mainly reflects a 60,002 reduction in long-term loans payable (including the current portion of long-term loans payable) due to repayments of loans payable.

Net Assets

Consolidated net assets at March 31, 2022, totaled 1,376,568 thousand yen, a 15,237 thousand yen

increase from September 30, 2021. This increase mainly reflects a 15,276 thousand yen increase in retained earnings.

2. Cash Flows

Cash and cash equivalents (“cash”) at March 31, 2022, totaled 1,257,438 thousand yen. Cash flows from operating, investing, and financing activities during the six months to March 31, 2022, were as follows.

Cash flows from operating activities

Operating activities provided net cash of 20,676 thousand yen. The main inflows were 49,108 thousand yen in profit before income taxes and 58,067 thousand yen in depreciation, and the main outflow was the 64,052 thousand yen in income taxes paid.

Cash flows from investing activities

Investing activities used net cash of 150,655 thousand yen. Cash used in investing activities included 64,984 thousand yen to purchase intangible assets, 50,000 thousand yen to purchase investment securities, and 45,980 thousand yen used in the purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

Financing activities used net cash of 60,002 thousand yen. Cash used in investing activities consisted of 60,002 thousand yen in repayments of long-term loans payable.

(3) Consolidated Earnings Forecast and Other Forward-looking Statements

The Company’s full-year consolidated earnings forecast is unchanged from the forecast included in the “Notice Concerning Consolidated Earnings Forecast in Connection with Commencement of Consolidated Accounting” released on February 10, 2022.

2. Consolidated Financial Statements and Main Notes**(1) Consolidated Balance Sheet**

(Thousands of yen)

	As of March 31, 2022
Assets	
Current assets	
Cash and deposits	1,257,438
Accounts receivable - trade	247,819
Other	99,729
Allowance for doubtful accounts	(795)
Total current assets	1,604,192
Non-current assets	
Property, plant and equipment	48,723
Intangible assets	
Goodwill	43,800
Other	196,119
Total Intangible assets	239,919
Investments and other assets	
Other	201,292
Allowance for doubtful accounts	(1,940)
Total investments and other assets	199,351
Total non-current assets	487,994
Total assets	2,092,187
Liabilities	
Current liabilities	
Accounts payable-trade	63,056
Short-term loans payable	100,000
Current portion of long-term loans payable	120,004
Income taxes payable	32,987
Other	233,063
Total current liabilities	549,110
Non-current liabilities	
Long-term loans payable	156,644
Provision for share awards	8,972
Contract liabilities	891
Total non-current liabilities	166,507
Total liabilities	715,618

(Thousands of yen)

	As of March 31, 2022
Net assets	
Shareholders' equity	
Capital stock	385,071
Capital surplus	375,071
Retained earnings	1,194,149
Treasury shares	(583,744)
Total shareholders' equity	1,370,547
Stock acquisition rights	6,020
Total net assets	1,376,568
Total liabilities and net assets	2,092,187

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

(Thousands of yen)

	Six Months ended March 31, 2022
Net sales	953,143
Cost of sales	281,738
Gross profit	671,404
Selling, general and administrative expenses	614,330
Operating profit	57,074
Non-operating income	
Dividend income	112
Commission income	206
Miscellaneous income	120
Total non-operating income	439
Non-operating expenses	
Interest expenses	600
Loss on sale of notes and accounts receivable-trade	7,805
Total non-operating expenses	8,405
Ordinary profit	49,108
Profit before income taxes	49,108
Income taxes	33,832
Profit for the period	15,276
Profit attributable to owners of the parent	15,276

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Six Months ended March 31, 2022
Profit for the period	15,276
Comprehensive income	15,276
Comprehensive income attributable to:	
Comprehensive income attributable to owners of the parent	15,276

(3) Consolidated Statement of Cash Flows

(Thousands of yen)

	Six Months ended March 31, 2022
Cash flows from operating activities	
Profit before income taxes	49,108
Depreciation	58,067
Interest and dividend income	(119)
Interest expenses	600
Decrease (increase) in notes and accounts receivable-trade	4,596
Increase (decrease) in notes and accounts payable-trade	2,471
Increase (decrease) in accounts payable- other	(44,378)
Increase (decrease) in advances received	19,351
Other	(4,501)
Subtotal	85,197
Interest and dividend income received	119
Interest paid	(587)
Income taxes paid	(64,052)
Net cash provided by operating activities	20,676
Cash flows from investing activities	
Purchase of property, plant and equipment	(6,822)
Purchase of intangible assets	(64,984)
Purchase of investment securities	(50,000)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(45,980)
Proceeds from refund of leasehold and guarantee deposits	17,131
Net cash used in investing activities	(150,655)
Cash flows from financing activities	
Repayments of long-term loans payable	(60,002)
Net cash used in financing activities	(60,002)
Net increase (decrease) in cash and cash equivalents	(189,980)
Cash and cash equivalents at beginning of period	1,447,418
Cash and cash equivalents at end of period	1,257,438

(4) Notes on the Consolidated Financial Statements

(Notes on the going-concern assumption)

Not applicable.

(Notes on significant changes in the amount of shareholders' equity)

Not applicable.

(Use of accounting methods specific to preparation of the quarterly consolidated financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by reasonably estimating the effective tax rate after application of tax effect accounting to income before income taxes for the fiscal year (including the second quarter of the fiscal year ending September 30, 2022), and multiplying quarterly income before income taxes by this estimated effective tax rate.

(Changes in accounting policy)

(Application of Accounting Standard for Revenue Recognition, etc.)

"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. have been applied effective from the beginning of the first quarter. Consequently, revenue is recognized when control of promised goods or services has been transferred to the customer at the amount expected to be received in exchange for those goods or services.

The main changes made by applying the ASBJ Statement No. 29, etc. are as follows.

(Revenue recognition for agent transactions)

For some of the Company's services, in which other company's services are provided as options, the Company previously recognized revenue at the total amount of consideration received from the customer. Following the application of ASBJ Statement No. 29, etc., however, for those transactions in which the Company's role in providing goods and services to the customer is that of an agent, the Company now recognizes revenue on a net basis, which is the amount received from customers less the amount paid to the service provider.

The Company's application of the Accounting Standard for Revenue Recognition, etc. is in accordance with the transitional treatment set forth in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effects of retrospectively applying the new accounting policy prior to the beginning of the first quarter have been reflected in the balance of retained earnings at the beginning of the first quarter, and the new accounting policy has thereby been applied to the balance of retained earnings at the beginning of the first quarter. Note, however, that the new accounting policy was not applied retrospectively to contracts in which almost all of the revenue amounts were recognized in accordance with the previous procedures before the beginning of the first quarter, pursuant to the provision of Paragraph 86 of the Accounting Standard for Revenue Recognition. As a result, net sales decreased by 132,010 thousand yen and cost of sales declined by 132,010 thousand yen in the first half of the fiscal year under review, but there was no impact on operating profit, ordinary profit, and profit before income taxes. In addition, there was no impact on the balance of retained earnings at the beginning of the first quarter.

(Additional information)

(Accounting estimates of the impact of COVID-19)

There have been no significant changes to the assumptions regarding the impact of COVID-19 outlined under (Accounting estimates of the impact of COVID-19) in the (Additional information) section of the statutory financial report for the fiscal year ended September 30, 2021.

(Application of Accounting Standard for Fair Value Measurement, etc.)

“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019), etc. have been applied effective from the beginning of the first quarter. In accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company has opted to apply the new accounting policies set forth in the Accounting Standard for Fair Value Measurement, etc. prospectively. Note that this has no impact on the Company’s quarterly financial statements as the Company does not hold financial instruments carried at fair value in the quarterly balance sheets.

(Segment information)

This information is omitted because the Company’s business is comprised of a single reportable segment: the E-Commerce Support Business.

(Business combination and related matters)

Business combination through acquisition

1. Overview of business combination

(1) Name of the acquired company and its business

Name: AIS Inc.

Business: Online advertising business, contract landing page/website production business

(2) Main reasons for the business combination

The Company set expansion/enhancement of the subscription business value chain as one of the growth strategy measures of its medium-term management plan released on November 12, 2021, with the aim of expanding support in areas such as advertising, call centers, logistics, operation agency, etc.

AIS Inc., which has joined the Group, is a company that specializes in the domain of recurring e-commerce, to which many of the Group’s clients belong, and conducts marketing, contract landing page/website production business, etc. Inclusion of AIS Inc. in the Group makes it possible to provide clients with new services including landing page/website production services and attracting new customers. It is for this reason that the Company decided to acquire shares in AIS Inc. as part of efforts to expand/enhance the subscription business value chain.

(3) Date of business combination

March 1, 2022

(4) Legal form of business combination

Acquisition of shares in exchange for cash

(5) Name of acquired company after business combination

Name will not change.

(6) Percentage of acquired voting rights

100%

(7) Main grounds for determining the acquiring company

Acquisition by the Company of all the shares in exchange for cash.

2. Period for which operating results of acquired company are included in the consolidated statement of income for the six months ended March 31, 2022

The consolidated financial statements for the six months ended March 31, 2022, includes the acquired company's balance sheets, but do not include its operating results in the consolidated statement of income, because the deemed acquisition date is the end of the six months under review.

3. Acquisition cost and breakdown of consideration by type

This information will not be disclosed due to confidentiality obligations with the counterparty to the share acquisition. Taking into account advice on due diligence from specialists, however, the Company will acquire AIS Inc. for an amount that is less than 15% of the value of the Company's net assets as of the end of the previous fiscal year.

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

(1) Amount of goodwill

43,800 thousand yen

Note that the amount of goodwill is provisional because allocation of acquisition cost has not been completed as of the end of six months under review.

(2) Cause of goodwill

Goodwill was generated because the acquisition cost exceeded the net asset value of the acquired company as of the date of business combination.

(3) Goodwill amortization method and period

The straight-line-method over five years

(Significant subsequent events)

(Share Acquisition Rights Series 5)

At a Board of Directors meeting held on March 25, 2022, the Company resolved to issue Stock Acquisition Rights as stock options to its employees in accordance with the provisions of Articles 236, 238, and 240 of the Companies Act, and issued them on April 15, 2022.

1. Reasons for Issuance of Stock Acquisition Rights

The Company issues Stock Acquisition Rights as stock options to employees with the aim of further raising their morale and their motivation for contributing to the enhancement of business performance and corporate value.

2. Details of Issuance of Stock Acquisition Rights

(1) Persons to be allotted Stock Acquisition Rights, number of persons, and number of Stock Acquisition Rights to be allotted

122 employees of the Company, 4,000 units

The total number of shares that can be delivered upon the exercise of the Stock Acquisition Rights shall be 400,000 shares, and in cases where the number of shares to be granted is adjusted pursuant to (4) 1) below, the number obtained by multiplying the adjusted number of shares to be granted by the number of the said Stock Acquisition Rights.

(2) Amount of money to be paid in for Stock Acquisition Rights

Payment of money is not required in exchange for the Stock Acquisition Rights. As the Stock Acquisition Rights are stock acquisition rights granted as consideration for the execution of duties, the lack of requirement for payment of money in exchange for the Stock Acquisition Rights does not constitute "favorable issue."

(3) Allotment date

April 15, 2022

(4) Details of Stock Acquisition Rights

1) Class and number of shares underlying the Stock Acquisition Rights

The class of shares underlying the Stock Acquisition Rights shall be Company common stock, and the number of shares underlying each Stock Acquisition Right (the "Number of Shares to Be Granted") shall be 100 shares.

However, in the event of a stock split (including allotment of shares of Company common stock without contribution; the same applies hereinafter) or reverse stock split of shares of Company common stock implemented after the date on which the Stock Acquisition Rights are allotted (the "Allotment Date"), the Number of Shares to Be Granted shall be adjusted based on the following formula. Any fraction less than one share arising from the adjustment shall be discarded.

$$\begin{array}{l} \text{Adjusted Number} \\ \text{of Shares to Be} \\ \text{Granted} \end{array} = \begin{array}{l} \text{Number of Shares to Be Granted} \\ \text{before adjustment} \end{array} \times \begin{array}{l} \text{Ratio of stock} \\ \text{split or reverse} \\ \text{split} \end{array}$$

In addition to the above, the Number of Shares to Be Granted shall be adjusted to a reasonable extent in the event of unavoidable circumstances that require adjustment of the Number of Shares to Be Granted after the Allotment Date.

2) Value of property to be contributed upon exercise of the Stock Acquisition Rights

Per Stock Acquisition Right: 39,100 yen (391 yen per share)

If any of the following events occurs after the Allotment Date, the exercise price shall be adjusted.

- i. If the Company implements a stock split or reverse stock split after the date of allocating the Stock Acquisition Rights, the exercise price shall be adjusted based on the following formula. Any fraction less than one yen arising from the adjustment shall be rounded up.

$$\text{Adjusted exercise price} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of stock split or reverse split}}$$

- ii. If, the Company issues new shares or disposes of its own shares at a price lower than the market value after the date of allocating the Stock Acquisition Rights (excluding the cases where these are implemented upon the exercise of the Stock Acquisition Rights for which the delivery of new shares of Company common stock can be requested (including those attached to the bonds with stock acquisition rights)), the exercise price shall be adjusted according to the following formula, and any fraction of less than one yen arising from the adjustment shall be rounded up.

$$\text{Adjusted exercise price} = \text{Exercise price before adjustment} \times \frac{\text{Number of shares already issued} \times \frac{\text{Number of shares newly issued}}{\text{Market value}} + \text{Amount to be paid in per share}}{\text{Number of shares already issued} + \text{Number of shares newly issued}}$$

In the above formula, "Number of shares already issued" shall be the number obtained by deducting the number of treasury shares of Company common stock from the total number of issued shares of Company common stock. In the event that the Company disposes of its treasury shares, the "Number of shares newly issued" shall be replaced by the "Number of treasury shares to be disposed of."

- iii. In addition to i. and ii. above, the exercise price shall be adjusted to a reasonable extent in the event of unavoidable circumstances that require adjustment of the exercise price after the Allotment Date.

3) Exercise period of the Stock Acquisition Rights

From April 16, 2024 to April 15, 2027

4) Conditions for exercise of the Stock Acquisition Rights

- i. At the time of exercise, it is necessary for a holder of the Stock Acquisition Rights to have the position of director, auditor or employee of the Company, or its subsidiary or affiliate. Provided, however, that this shall not apply to the case of expiration of the term of office or retirement at the mandatory retirement age, or in other cases where the Board of Directors resolves that there are justifiable grounds for the exercise of the Stock Acquisition Rights after expiration of the term of office or retirement of the holder.
- ii. From April 16, 2024 (the "Exercise Commencement Date"), the exercise of the Stock Acquisition Rights shall be limited to one half of the number of the Stock Acquisition Rights allotted to a holder of the Stock Acquisition Rights (the "Number of Stock Acquisition Rights Allotted"). From the day on which one year has elapsed from the Exercise Commencement Date, the other one-half can be exercised, so all of the Number of Stock Acquisition Rights Allotted shall be the maximum number that can be exercised. Incidentally, if a fraction of less than one unit occurs in the maximum number of the Stock Acquisition Rights that can be exercised, it shall be rounded up.
- iii. In the event of the death of a holder of the Stock Acquisition Rights, the exercise of the Stock Acquisition Rights by an heir of the holder shall not be permitted, and such Stock Acquisition Rights shall be extinguished in accordance with the provisions of Article 287 of the Companies Act.

- iv. Holders of the Stock Acquisition Rights may exercise some or all of the Number of Stock Acquisition Rights allotted. Note, however, that the Stock Acquisition Rights of less than one unit shall not be exercised.
 - v. In cases where a holder of the Stock Acquisition Rights ceases to have the position of director, auditor or employee of the Company, or its subsidiary or affiliate, such Stock Acquisition Rights shall be extinguished in accordance with the provisions of Article 287 of the Companies Act.
- 5) Matters concerning capital stock and legal capital surplus to be increased in the case of issuing shares upon exercise of Stock Acquisition Rights
- i. The amount of capital stock to be increased in the case of issuing shares upon exercise of the Stock Acquisition Rights shall be one half of the maximum amount of increase in stated capital calculated pursuant to the provision of Article 17, Paragraph 1 of the Regulation on Corporate Accounting, and any fraction of less than one yen resulting from the calculation shall be rounded up.
 - ii. The amount of legal capital surplus to be increased in the case of issuing shares upon exercise of the Stock Acquisition Rights shall be the amount obtained by subtracting the increase in amount of capital stock as set forth in i. above from the maximum amount of increase in stated capital mentioned in i. above.
- 6) Restriction on acquisition of Stock Acquisition Rights by transfer
- Acquisition of the Stock Acquisition Rights by transfer requires approval by resolution of the Board of Directors.
- 7) Conditions on acquisition of Stock Acquisition Rights
- i. In cases where a holder of the Stock Acquisition Rights ceases to have the position of director, auditor or employee of the Company, or its subsidiary or affiliate, the Company may, by a resolution of the Board of Directors, acquire the Stock Acquisition Rights held by such holder without compensation on a date separately determined.
 - ii. If any of the following proposals is approved at a General Meeting of Shareholders (or, in cases where a General Meeting of Shareholders is not required, if a resolution is made by the Board of Directors), the Company may, by a resolution of the Board of Directors, acquire the Stock Acquisition Rights without compensation on a date separately determined.
 - a) Proposal for approval of a merger agreement, in which the Company becomes the extinguished company
 - b) Proposal for approval of an absorption-type company split agreement or an incorporation-type company split plan, in which the Company becomes the splitting company
 - c) Proposal for approval of a share exchange agreement or a share transfer plan, in which the Company becomes a wholly-owned subsidiary
 - iii. The Company may acquire all or part of the Stock Acquisition Rights without compensation upon the arrival of a date separately determined by a resolution of the Board of Directors. If part of the Stock Acquisition Rights is to be acquired, the part of the Stock Acquisition Rights to be acquired shall be determined by a resolution of the Board of Directors.
- 8) Treatment of Stock Acquisition Rights upon reorganization
- In cases where the Company conducts a merger (limited to cases in which the Company is to be extinguished as a result of the merger), an absorption-type company split, an incorporation-type company split, a stock exchange or a stock transfer (collectively, the "Reorganization"), the stock acquisition rights of the companies listed in Article 236, Paragraph 1, item 8 (a) to (e) of the Companies Act (the "Reorganized Company") shall be delivered, in each of the above cases, to the holders of Stock Acquisition Rights remaining at the time of the effective date of the Reorganization (the "Remaining Stock Acquisition Rights"), and the Remaining Stock Acquisition Rights shall be

extinguished. This shall be limited, however, to cases in which the issuance of share acquisition rights of the Reorganized Company and its ratio is provided for in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a stock exchange agreement or a stock transfer plan.

9) Treatment of fractions

If the number of shares to be delivered to holders of the Stock Acquisition Rights upon exercise of the Stock Acquisition Rights includes a fraction of less than one share, such a fraction shall be discarded.

(Business combination through acquisition)

At a meeting of the Board of Directors held on April 25, 2022, the Company resolved to acquire 100% of Sackle Inc.'s shares to make it a subsidiary and acquired the shares on the same date.

1. Overview of business combination

(1) Name of the acquired company and its business

Name: Sackle Inc.

Business: Creative business (contracted system development), SES business, programming learning business

(2) Main reasons for the business combination

As one of the growth strategy measures in its medium-term management plan released on November 12, 2021, the Company has been promoting the development of new clients by expanding three target areas: (1) client segments, (2) enterprise areas, and (3) early-stage startup clients.

As for expansion of enterprise areas, demand for Subsc-Store customization services is on the rise as the subscription business expands. To meet this demand, the Company has formulated a strategy involving further strengthening of its product manager system and engineer system.

Sackle, which has joined the Group, is a company that specializes in web system development and has the advantage of a centralized and comprehensive support system with experts in development, design, and marketing. Inclusion of Sackle in the Group not only strengthens the Group's development capabilities but also enables the Group to develop and provide various solutions to support the subscription business. It is for this reason that the Company decided to acquire shares in Sackle as part of efforts to expand target areas.

(3) Date of business combination

April 25, 2022

(4) Legal form of business combination

Acquisition of shares in exchange for cash

(5) Name of acquired company after business combination

Name will not change.

(6) Percentage of acquired voting rights

100%

(7) Main grounds for determining the acquiring company

Acquisition by the Company of all shares in exchange for cash.

2. Acquisition cost and breakdown of consideration by type

Acquisition consideration	Cash	300,000 thousand yen
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Acquisition cost		300,000 thousand yen

3. Major acquisition-related expenses

Advisory fees, etc.: 45,833 thousand yen (estimated)

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

Yet to be finalized.

5. Amounts of assets and liabilities accepted on the date of the business combination and rough breakdown

Yet to be finalized