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Summary of Non-consolidated Financial Results for the Three Months Ended March 31, 2023 [Japanese GAAP]



May 12, 2023

Company name: WealthNavi Inc.
 Listing: Tokyo
 Securities code: 7342 URL: <http://www.wealthnavi.com>
 Representative: Representative Director and CEO Kazuhisa Shibayama
 Contact: Director, CFO Gaku Hirose (TEL) +81-3-6632-4911
 Scheduled date to file quarterly Securities Report: May 12, 2023
 Scheduled date to commence dividend payments: -
 Preparation of supplementary materials on quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

(Millions of yen with fractional amounts rounded down, unless otherwise noted)

1. Non-consolidated financial results for the three months ended March 31, 2023 (from January 1, 2023 to March 31, 2023)

(1) Non-consolidated operating results (cumulative) (Percentages indicate year-on-year changes)

| | Operating revenue | | Net operating revenue | | Operating profit | | Ordinary profit | | Net profit | |
|-----------------------------------|-------------------|------|-----------------------|------|------------------|---|-----------------|---|-------------|---|
| | million yen | % | million yen | % | million yen | % | million yen | % | million yen | % |
| Three months ended March 31, 2023 | 1,768 | 21.0 | 1,757 | 21.2 | (28) | - | (28) | - | (25) | - |
| March 31, 2022 | 1,461 | 62.9 | 1,450 | 62.5 | (34) | - | (33) | - | (34) | - |

| | Basic earnings per share | Diluted earnings per share |
|-----------------------------------|--------------------------|----------------------------|
| | Yen | Yen |
| Three months ended March 31, 2023 | (0.52) | - |
| March 31, 2022 | (0.73) | - |

Note Diluted earnings per share is not depicted because, although potential shares exist, the basic loss per share is reported for the quarter.

(2) Non-consolidated financial position

| | Total assets | Net assets | Equity-to-asset ratio |
|-------------------|--------------|-------------|-----------------------|
| As of | million yen | million yen | % |
| March 31, 2023 | 21,556 | 11,255 | 52.2 |
| December 31, 2022 | 25,964 | 10,980 | 42.3 |

(Reference) Equity: As of March 31, 2023 11,255 million yen
 As of December 31, 2022 10,980 million yen

2. Cash dividends

| | Annual dividends per share | | | | |
|---|----------------------------|--------------------|-------------------|-----------------|-------|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal year ended December 31, 2022 | - | 0.00 | - | 0.00 | 0.00 |
| Fiscal year ending December 31, 2023 | - | | | | |
| Fiscal year ending December 31, 2023 (Forecast) | | 0.00 | - | 0.00 | 0.00 |

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Non-consolidated earnings forecast for the fiscal year ending December 31, 2023 (from January 1, 2023 to December 31, 2023)

(Percentages indicate year-on-year changes)

| | Operating revenue | | Operating profit | |
|--------------------------------------|-------------------|------|------------------|-----|
| | million yen | % | million yen | % |
| Fiscal year ending December 31, 2023 | 7,717 | 17.4 | 216 | 2.9 |

Note 1. Revisions to the earnings forecast most recently announced: Yes

* Notes

(1) Adoption of accounting treatment specific to the preparation of quarterly non-consolidated financial statements: Yes

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies in accordance with changes in accounting standards, etc.: Yes

(ii) Changes in accounting policies due to other reasons: Yes

(iii) Changes in accounting estimates: None

(iv) Restatement: None

Note: Please refer to Attached Materials on page 7 of Attached Materials “2. Quarterly financial statements and significant notes thereto (3) Notes to quarterly financial statements (Changes in accounting policies).”

(3) Number of shares issued (common shares)

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

As of March 31, 2023 48,821,821 shares

As of December 31, 2022 48,377,671 shares

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

As of March 31, 2023 835 shares

As of December 31, 2022 835 shares

(iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Three months ended March 31, 2023 48,672,164 shares

Three months ended March 31, 2022 47,183,190 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Explanation of the proper use of earnings forecasts, and other special matters

The forward-looking statements such as earnings forecasts contained in these materials are based on information currently available to the Company and certain assumptions deemed to be reasonable. These statements do not purport that the Company pledges to realize such statements. Because of variable factors, actual results may differ from the forecast figures. For information regarding assumptions upon which the Company’s results forecasts are based and notes regarding the use of forecasts, please refer to page 3 of Attached Materials “1. Qualitative information regarding quarterly results (3) Explanation of non-consolidated forecasts and forward-looking statements.”

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1. Qualitative information regarding quarterly results

(1) Explanation of operating results

During the first quarter of the current fiscal year, there was a continued concern over a global economic slowdown caused by interest rate hikes by central banks across the world in response to inflation, continuing geopolitical risks, and sluggish consumption due to inflation. The Japanese economy remained uncertain due to the inflationary pressure while there was an expectation for economic recovery with the lift of Covid restrictions.

Under such circumstances, the Company has actively worked on to expand the functions of its fully automated robo-advisor “WealthNavi” and to increase the number of its alliance partners. It has also engaged in advertising activities including TV promotions, hiring talent to drive its business, and enhancing security measures.

Regarding the functionality expansion of “WealthNavi,” the Company started offering “Robo-NISA” to customers at the age of 18 and 19 years old on January 1 in response to the revision to Japan’s Civil Code to lower the legal age of adulthood from 20 to 18 effective on April 1, 2022. In addition, it lowered the minimum investment threshold from 100,000 yen to 10,000 yen in order to set the bar low for initial investment. The change was applied for direct users on February 27, and it plans to expand the coverage of the change to alliance users. It also plans to enable new users to start using its service with the recurring deposit plan. In Japan, New NISA, which integrates the existing two NISA programs and has enhanced tax benefits, will start in January 2024. New NISA may encourage taxpayers, especially working families, to start investing and shift more assets from bank deposits to risk bearing assets. The Company will continue to enhance product features to support more working families.

The Company also enhanced its business activities with new alliance partners, and it launched “WealthNavi for ORIX Bank” in February.

As for the advertising activities, the Company continued its TV promotions. Coupled with digital advertising, it aimed to effectively reach potential customers who consider starting wealth management. Additionally, it started to prepare for in-person seminars while offering online seminars on a regular basis.

As a result, as of March 31, 2023, there were 363 thousand users (increased from 332 thousand users a year ago) and assets under management totaled 777.6 billion yen (increased from 662.6 billion yen a year ago).

Consequently, for the three months ended March 31, 2023, the operating revenue was 1,768 million yen (up 21.0% year-over-year), and the net operating revenue after deducting financial expenses of 10 million yen from the total operating revenue was 1,757 million yen (up 21.2% year-over-year). The selling, general, and administrative expenses cost was 1,786 million yen (up 20.3% year-over-year), resulting in an operating profit excluding advertising expenses of 662 million yen (up 44.6% year-over-year), an operating loss of 28 million yen (a loss of 34 million yen in the same period of previous fiscal year; same hereinafter), an ordinary loss of 28 million yen (a loss of 33 million yen), and a quarterly net loss of 25 million yen (a loss of 34 million yen).

The Company only operates in a single segment being the robo-advisor business, and thus, no segment information is reported.

(2) Explanation of financial position

(Assets)

Total assets as of March 31, 2023 were 21,556 million yen, decreased by 4,408 million from the end of the previous fiscal year. This was mainly due to the decrease in cash and deposits by 2,315 million yen associated with tax payments on securities transactions, the decrease in cash segregated as deposits for customers by 1,300 million yen and the decrease in deposit paid to prime brokerage for ETF purchase by 790 million yen.

(Liabilities)

Total liabilities as of March 31, 2023 were 10,300 million yen, decreased by 4,683 million yen from the end of the previous fiscal year. This was mainly due to the decrease in deposits received by 4,396 million yen associated with tax payments on securities transactions.

(Net assets)

Total net assets as of March 31, 2023 were 11,255 million yen, increased by 275 million yen. This was caused by an increase in share capital of 150 million yen and an increase in legal capital surplus of 150 million yen due to shares issued upon the exercise of stock options, and a decrease in retained earnings of 25 million yen due to the recording of a quarterly net loss.

(3) Explanation of non-consolidated financial results forecasts and other forward-looking statements

The goal of the Company is to maximize mid to long-term free cash flow. To this end, it continues to invest proactively to fully realize our growth potential.

The Company's top priority for 2023 is to upgrade Robo-NISA to align with New NISA, which will start in January 2024. It will expand Robo-NISA's coverage to both general NISA and installment NISA so that it can fully support users in the integrated New NISA program, and it will focus marketing on New Robo-NISA in the fourth quarter of 2023. In addition, it will enhance product features to improve usability and customer experience in the New NISA program.

As for the business with its alliance partners, it will work together with the existing partners to start promoting New NISA and to shift assets from bank deposits. For marketing strategy, it is to continue aggressive, yet disciplined, advertising aiming to acquire new users and enhance brand awareness. It is to continue to hire actively to accelerate the growth of existing business, to align with New NISA, and to develop a multi-service platform. In addition, it is to hire new graduates who will join us in 2024.

Consequently, operating revenue for 2023 is expected to total 7,717 million yen (increase by 17.4% year-over-year), and operating profit is expected to total 216 million yen (increase by 2.9% year-over-year).

2. Quarterly financial statements and significant notes thereto

(1) Quarterly balance sheets

(Units: Thousands of yen)

| | As of December 31, 2022 | As of March 31, 2023 |
|---|-------------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 12,382,566 | 10,066,792 |
| Cash segregated as deposits | 9,800,000 | 8,500,000 |
| Cash segregated as deposits for customers | 9,800,000 | 8,500,000 |
| Trading products | 144 | 170 |
| Trade date accrual | 387 | 368 |
| Advances paid | 2,184 | 708 |
| Advance payments | 4,000 | 4,000 |
| Prepaid expenses | 159,777 | 133,137 |
| Accounts receivable - other | 6,197 | 2,825 |
| Accrued income | 642,424 | 670,561 |
| Deposit paid | 2,476,107 | 1,685,756 |
| Other current assets | 542 | 577 |
| Total current assets | 25,474,331 | 21,064,898 |
| Noncurrent assets | | |
| Property, plant, and equipment | | |
| Buildings | 145,043 | 145,285 |
| Equipment | 91,387 | 97,872 |
| Accumulated depreciation | (132,710) | (145,529) |
| Total property, plant, and equipment | 103,720 | 97,628 |
| Intangible assets | | |
| Software | 82,884 | 83,605 |
| Software in progress | 14,768 | 20,592 |
| Trademark right | 800 | 762 |
| Total intangible assets | 98,452 | 104,960 |
| Investments and other assets | | |
| Lease and guarantee deposits | 140,587 | 140,587 |
| Long-term prepaid expenses | 28,283 | 24,764 |
| Deferred tax assets | 118,877 | 123,400 |
| Total investments and other assets | 287,748 | 288,752 |
| Total noncurrent assets | 489,921 | 491,341 |
| Total assets | 25,964,253 | 21,556,240 |

(Units: Thousands of yen)

| | As of December 31, 2022 | As of March 31, 2023 |
|---|-------------------------|----------------------|
| Liabilities | | |
| Current liabilities | | |
| Deposits received | 12,703,639 | 8,307,546 |
| Accounts payable - other | 560,626 | 355,861 |
| Accrued expenses | 122,259 | 114,203 |
| Income taxes payable | 97,156 | 22,736 |
| Total current liabilities | 13,483,681 | 8,800,348 |
| Noncurrent liabilities | | |
| Long-term loans payable | 1,500,000 | 1,500,000 |
| Total noncurrent liabilities | 1,500,000 | 1,500,000 |
| Total liabilities | 14,983,681 | 10,300,348 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 3,564,603 | 3,714,879 |
| Capital surplus | | |
| Legal capital surplus | 8,579,368 | 8,729,644 |
| Other capital surplus | 45,690 | 45,690 |
| Total capital surplus | 8,625,058 | 8,775,334 |
| Retained earnings | | |
| Other retained earnings | | |
| Retained earnings brought forward | (1,208,980) | (1,234,211) |
| Total retained earnings | (1,208,980) | (1,234,211) |
| Treasury shares | (110) | (110) |
| Total shareholders' equity | 10,980,571 | 11,255,891 |
| Total net assets | 10,980,571 | 11,255,891 |
| Total liabilities and net assets | 25,964,253 | 21,556,240 |

(2) Quarterly statement of income

(Units: Thousands of yen)

| | For the three months ended March 31, 2022 | For the three months ended March 31, 2023 |
|--|--|--|
| Operating revenue | | |
| Fee received | 1,454,720 | 1,752,855 |
| Net trading income | 1,159 | 8,737 |
| Financial revenue | 600 | 1,591 |
| Other operating revenue | 5,100 | 5,625 |
| Total operating revenue | 1,461,580 | 1,768,809 |
| Financial expenses | 11,458 | 10,866 |
| Net operating revenue | 1,450,122 | 1,757,942 |
| Selling, general, and administrative expenses | | |
| Trading-related expenses | 871,672 | 1,014,025 |
| Personnel expenses | 350,519 | 441,503 |
| Real estate expenses | 62,426 | 91,037 |
| Office expenses | 110,214 | 125,019 |
| Depreciation | 16,958 | 19,007 |
| Taxes and dues | 17,759 | 22,385 |
| Other | 54,973 | 73,493 |
| Total selling, general, and administrative expenses | 1,484,523 | 1,786,472 |
| Operating loss | (34,401) | (28,530) |
| Non-operating income | 1,421 | 759 |
| Non-operating expenses | | |
| Stock issuance expenses | 524 | 1,033 |
| Other | 33 | - |
| Total non-operating expenses | 557 | 1,033 |
| Ordinary loss | (33,537) | (28,803) |
| Loss before income taxes | (33,537) | (28,803) |
| Total income taxes | 950 | (3,572) |
| Loss | (34,487) | (25,231) |

(3) Notes to quarterly financial statements

(Notes on premise of going concern)

Not applicable.

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

Not applicable.

(Adoption of specified accounting methods for the preparation of quarterly non-consolidated financial statements)

(Calculation of tax expenses)

The Company has calculated tax expenses by multiplying quarterly net profit before income taxes by the estimated effective tax rate. The tax rate is reasonably estimated with consideration of tax effect accounting for the full year net profit before income taxes. In case the estimated effective tax rate is significantly unreasonable, the Company calculates tax expenses using the statutory tax rate.

(Changes in accounting policies)

(Change in the calculation method for tax expenses)

The Company used to calculate tax expenses using the same method as that used for the year-end closing. The Company changed the calculation method for tax expenses in this quarter in order to make its quarterly closing process timely and efficient. The newly adopted method is multiplying quarterly net profit before income taxes by the estimated effective tax rate. The tax rate is reasonably estimated with consideration of tax effect accounting for the full year net profit before income taxes.

The Company does not apply the change retrospectively, as the impact on the quarterly non-consolidated financial statements is immaterial.

(Adoption of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has adopted the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 31, June 17, 2021, hereinafter the "Implementation Guidance") from the beginning of the first quarter of the current fiscal year. The new accounting policy will be applied prospectively, in line with the transitional treatment specified in Paragraph 27-2 of the Implementation Guidance. This change in accounting policies has no impact on the quarterly non-consolidated financial statements.

(Significant subsequent events)

(Issuance of new shares in the form of restricted shares (compensation))

At the Board of Directors meeting held on April 14, 2023, the Company resolved to issue new shares in the form of restricted shares (compensation) (hereinafter the "Issuance of New Shares"), and it completed the payment for issuance on May 12, 2023.

The details are as follows:

1. Purpose of issuance, etc.

The Company's Board of Directors has resolved to introduce a restricted share compensation plan (hereinafter the "Plan") at the Board of Directors' meeting held on February 25, 2021 and to revise the Plan at the meeting held on February 21, 2022. Upon the resolutions, the Board of Directors has resolved on April 14, 2023 to grant to 4 Directors (excluding Audit & Supervisory Committee Members and including Outside Directors, hereinafter the Eligible Executive Members") and 43 employees (hereinafter the "Eligible Employees") 74,570 common shares of the Company (hereinafter "Allotted Shares") in exchange for in-kind contribution of monetary compensation claims totaling 87,023,190 yen, considering the financial status of the Company and other various factors. The purpose of the Plan is to improve shareholders' value of the Company by further aligning the interest of them and that of shareholders, and further enhancing employee benefits for the Eligible Employees. Please note that, at the 7th Annual General Meeting of Shareholders of the Company held on March 24, 2022, an approval was granted to the effect that (1) the total amount of monetary remuneration payable to grant restricted stocks to the Directors (excluding Audit & Supervisory Committee members and including Outside Directors) under the Plan shall not exceed 50 million yen per year (of which, the amount shall not exceed 10

million yen per year for Outside Directors) , (2) the transfer restriction period for restricted stocks shall be a period from when the allotted shares are granted until the retirement or resignation (excluding cases where the Director is reappointed to or assumes either of those positions simultaneous with such resignation or retirement; the same applies hereinafter) of such Director and executive officer from his or her position as Director or other position defined by the Board of Directors, and (3) (i) a Director continuously maintains his or her position during the service provision period as determined by the Company's Board of Directors and (ii) if a Director resigns from his or her position or retires from the Company before the expiration date of the service provision period for a reason the Company's Board of Directors deems justifiable, the Company shall make reasonable adjustments to the number of allotted shares for which the transfer restrictions are lifted, as necessary.

2. Outline of the Issuance

| | |
|---|--|
| (1) Payment date | May 12, 2023 |
| (2) Class and number of shares to be issued | 71,570 shares of the Company's common stock |
| (3) Issue price | 1,167 yen per share |
| (4) Total issue price | 83,522,190 yen |
| (5) Amount of capitalization | 583.5 yen per share |
| (6) Total amount of capitalization | 41,761,095 yen |
| (7) Method of offering or allotment | Allotment of restricted stocks |
| (8) Method of contribution | In-kind contribution of monetary (compensation) receivables |
| (9) Allottees and number thereof; number of shares to be allotted | 4 Directors of the Company 12,857 shares 40 employees of the Company 58,713 shares |
| (10) Transfer restriction period for restricted stocks | (Eligible Executive Members) From May 12, 2023 (the payment date) until the retirement or resignation (excluding cases where the Eligible Executive Member is reappointed to or assumes either of those positions simultaneous with such resignation or retirement) of such Eligible Executive Members from his or her position as either director, executive officer, or employee (Eligible Employees) From May 12, 2023(the payment date) to May 11, 2026 The same conditions for the Eligible Executive Members are to be applied to a part of the Eligible Employees |
| (11) Other | In connection with the Issuance of New Shares, a securities notice was filed in accordance with the Financial Instruments and Exchange Act. |