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Consolidated Financial Results for the Three Months Ended May 31, 2023 (under IFRS)

July 13, 2023

Company name: **WingArc1st Inc.**
 Listing: Tokyo Stock Exchange
 Securities code: 4432
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 Representative: Jun Tanaka, President, Executive Officer and CEO
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 Scheduled date to file quarterly securities report: July 13, 2023
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

(Amounts are rounded down to the nearest million yen.)

1. Consolidated financial results for the three months ended May 31, 2023 (from March 1, 2023 to May 31, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		Profit before income taxes		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
May 31, 2023	6,921	20.9	2,578	33.2	2,551	33.7	1,829	27.0
May 31, 2022	5,723	21.4	1,935	37.2	1,908	39.0	1,440	43.0

	Profit attributable to equity holders of the parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Three months ended						
May 31, 2023	1,837	27.0	2,016	24.3	53.85	53.08
May 31, 2022	1,447	43.6	1,621	60.7	42.68	42.05

Note: Effective the fiscal year ended February 28, 2022, the Company has adopted a share-based remuneration system which utilizes an officer remuneration BIP trust, and shares of the Company held by the trust are included in treasury shares. In line with this, for the calculation of basic earnings per share and diluted earnings per share, the number of the Company's own shares held by the trust was included in the number of treasury shares, which are excluded from the calculation for the weighted average number of ordinary shares outstanding during the period.

(Reference)

	EBITDA	
	Millions of yen	%
Three months ended		
May 31, 2023	2,883	27.6
May 31, 2022	2,259	31.0

Notes: 1. The Group uses EBITDA as an important management indicator. For information about the indicator, refer to “(Notes when referring to summary information)” below.

2. The Group has disclosed “adjusted EBITDA” and “adjusted profit” (hereinafter, “adjusted indicators”) as important management indicators thus far, but will not disclose “adjusted indicators” from the fiscal year ending February 29, 2024 as expenses for which adjustments are deemed necessary when making investment decisions have, for the most part, not arisen since the fiscal year ended February 28, 2022. If the Group utilizes comparisons against “adjusted indicators” going forward, it will specify that it has done so.

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to equity holders of the parent	Ratio of equity attributable to equity holders of the parent
As of	Millions of yen	Millions of yen	Millions of yen	%
May 31, 2023	65,210	35,864	35,814	54.9
February 28, 2023	62,550	34,574	34,516	55.2

2. Cash dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Annual total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2023	0.00	21.30	0.00	21.80	43.10
Fiscal year ending February 29, 2024	0.00				
Fiscal year ending February 29, 2024 (Forecast)		22.50	0.00	22.50	45.00

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

3. Consolidated earnings forecasts for the fiscal year ending February 29, 2024 (from March 1, 2023 to February 29, 2024)

(Percentages indicate year-on-year changes.)

	Revenue		Operating profit		EBITDA		Profit attributable to equity holders of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ending February 29, 2024	23,800	6.5	6,350	6.8	7,600	6.1	4,600	4.5

Note: Revisions to the earnings forecasts most recently announced: None

* Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Changes in accounting policies and changes in accounting estimates
 - (i) Changes in accounting policies required by IFRS: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None

(3) Number of issued shares (ordinary shares)

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

As of May 31, 2023	34,585,770 shares
As of February 28, 2023	34,571,170 shares

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

As of May 31, 2023	433,822 shares
As of February 28, 2023	479,513 shares

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

For the three months ended May 31, 2023	34,118,020 shares
For the three months ended May 31, 2022	33,898,164 shares

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

* **Proper use of earnings forecasts, and other special items**

(Caution concerning 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. Actual business and other results may differ substantially due to various factors.

(Notes when referring to summary information)

1. EBITDA = Operating profit + Depreciation and amortization expenses
2. From the fiscal year ended February 29, 2020, due to the adoption of IFRS 16, the right of use related to office leases is recognized as a right-of-use asset, and depreciation related to this asset is also recorded. However, in the calculation of EBITDA, depreciation related to this right-of-use asset is excluded from "Depreciation and amortization expenses."
3. EBITDA is not a measure prescribed by IFRS, but rather is a financial measure that the Group believes is useful for investors to evaluate the Group's performance.
4. EBITDA should not be considered as an alternative measure to other measures presented in accordance with IFRS, as it excludes some of the items that affect quarterly profit and has significant limitations as a means of analysis. EBITDA for the Group may not be comparable to the measures used by other companies in the industry due to different calculation methods from those used for the same or similar measures. As a result, its usefulness may be reduced.

Condensed Quarterly Consolidated Financial Statements

(1) Condensed quarterly consolidated statements of financial position

(Unit: thousand yen)

	As of February 28, 2023	As of May 31, 2023
Assets		
Current assets		
Cash and cash equivalents	11,175,988	12,106,946
Trade and other receivables	1,472,914	2,440,450
Other financial assets	41,319	46,087
Other current assets	548,328	726,993
Total current assets	<u>13,238,550</u>	<u>15,320,478</u>
Non-current assets		
Property and equipment	1,604,798	1,711,972
Goodwill	27,309,157	27,303,633
Other intangible assets	16,231,589	16,101,814
Other financial assets	4,148,468	4,755,041
Other non-current assets	17,506	17,273
Total non-current assets	<u>49,311,520</u>	<u>49,889,735</u>
Total assets	<u>62,550,070</u>	<u>65,210,213</u>
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	1,061,108	774,912
Contract liabilities	6,357,711	8,021,595
Current portion of long-term borrowings	1,997,476	1,998,317
Income taxes payable	778,487	642,859
Other financial liabilities	526,509	871,730
Other current liabilities	2,031,092	1,667,057
Total current liabilities	<u>12,752,384</u>	<u>13,976,473</u>
Non-current liabilities		
Long-term borrowings, net of current portion	10,214,954	10,219,387
Provisions	90,528	90,585
Other financial liabilities	260,441	325,115
Deferred tax liabilities	4,657,620	4,734,494
Total non-current liabilities	<u>15,223,544</u>	<u>15,369,583</u>
Total liabilities	<u>27,975,928</u>	<u>29,346,056</u>
Equity		
Issued capital	1,135,142	1,138,890
Capital surplus	12,161,273	12,120,935
Other components of equity	1,653,532	1,839,748
Retained earnings	20,190,350	21,279,055
Treasury shares	(623,385)	(563,987)
Equity attributable to equity holders of the parent	<u>34,516,913</u>	<u>35,814,642</u>
Non-controlling interests	57,228	49,514
Total equity	<u>34,574,141</u>	<u>35,864,156</u>
Total liabilities and equity	<u>62,550,070</u>	<u>65,210,213</u>

- (2) Condensed quarterly consolidated statements of profit or loss and condensed quarterly consolidated statements of comprehensive income
(Condensed quarterly consolidated statements of profit or loss)

(Unit: thousand yen, unless otherwise stated)

	Three months ended May 31, 2022	Three months ended May 31, 2023
Revenue	5,723,872	6,921,955
Personnel expenses except those included in research and development costs	(1,314,711)	(1,515,095)
Research and development costs	(644,866)	(713,577)
Outsourcing expenses	(534,268)	(606,085)
Commission expenses	(270,954)	(298,478)
Other operating income	3,811	15,494
Other operating expenses	(1,027,427)	(1,226,080)
Operating profit	1,935,456	2,578,133
Finance income	11,955	7,900
Finance costs	(39,326)	(34,739)
Profit before income taxes	1,908,084	2,551,294
Income taxes	(467,359)	(721,633)
Profit	1,440,725	1,829,660
Profit attributable to:		
Equity holders of the parent	1,447,045	1,837,373
Non-controlling interests	(6,320)	(7,713)
Profit	1,440,725	1,829,660
Earnings per share		
Basic earnings per share (yen)	42.68	53.85
Diluted earnings per share (yen)	42.05	53.08

(Condensed quarterly consolidated statements of comprehensive income)

(Unit: thousand yen)

	Three months ended May 31, 2022	Three months ended May 31, 2023
Profit	1,440,725	1,829,660
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	90,608	192,875
Total of items that will not be reclassified to profit or loss	90,608	192,875
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	90,389	(6,461)
Total of items that may be reclassified to profit or loss	90,389	(6,461)
Other comprehensive income, net of income taxes	180,998	186,413
Total comprehensive income, net of income taxes	1,621,723	2,016,073
Attributable to:		
Equity holders of the parent	1,628,043	2,023,787
Non-controlling interests	(6,320)	(7,713)
Total comprehensive income	1,621,723	2,016,073

(3) Condensed quarterly consolidated statement of changes in equity
Three months ended May 31, 2022

(Unit: thousand yen)

	Equity attributable to equity holders of the parent					Total
	Issued capital	Capital surplus	Other components of equity			
			Exchange differences on translation of foreign operations	Stock acquisition rights	Financial assets measured at fair value through other comprehensive income	
As of March 1, 2022	1,084,100	12,061,694	(3,837)	18,420	763,589	778,173
Profit						—
Other comprehensive income			90,389		90,608	180,998
Comprehensive income	—	—	90,389	—	90,608	180,998
Dividends						—
Share-based payment transactions		(11,851)				—
Exercise of stock acquisition rights	5,751	5,751		(302)		(302)
Forfeiture of stock acquisition rights		6,750		(6,750)		(6,750)
Changes in ownership interest in subsidiaries		2,343				—
Total transactions with equity holders	5,751	2,993	—	(7,052)	—	(7,052)
As of May 31, 2022	1,089,851	12,064,687	86,552	11,368	854,198	952,119

(Unit: thousand yen)

	Equity attributable to equity holders of the parent			Non-controlling interests	Total
	Retained earnings	Treasury shares	Total		
As of March 1, 2022	17,269,118	(650,000)	30,543,086	76,372	30,619,458
Profit	1,447,045		1,447,045	(6,320)	1,440,725
Other comprehensive income			180,998		180,998
Comprehensive income	1,447,045	—	1,628,043	(6,320)	1,621,723
Dividends	(751,165)		(751,165)		(751,165)
Share-based payment transactions		26,703	14,851		14,851
Exercise of stock acquisition rights			11,200		11,200
Forfeiture of stock acquisition rights			—		—
Changes in ownership interest in subsidiaries			2,343	17,656	20,000
Total transactions with equity holders	(751,165)	26,703	(722,769)	17,656	(705,113)
As of May 31, 2022	17,964,998	(623,296)	31,448,360	87,708	31,536,069

Three months ended May 31, 2023

(Unit: thousand yen)

	Equity attributable to equity holders of the parent					Total
	Issued capital	Capital surplus	Other components of equity			
			Exchange differences on translation of foreign operations	Stock acquisition rights	Financial assets measured at fair value through other comprehensive income	
As of March 1, 2023	1,135,142	12,161,273	108,142	8,986	1,536,403	1,653,532
Profit						—
Other comprehensive income			(6,461)		192,875	186,413
Comprehensive income	—	—	(6,461)	—	192,875	186,413
Dividends						—
Share-based payment transactions		(44,087)				—
Exercise of stock acquisition rights	3,748	3,748		(197)		(197)
Total transactions with equity holders	3,748	(40,338)	—	(197)	—	(197)
As of May 31, 2023	1,138,890	12,120,935	101,680	8,789	1,729,278	1,839,748

(Unit: thousand yen)

	Equity attributable to equity holders of the parent			Non-controlling interests	Total
	Retained earnings	Treasury shares	Total		
As of March 1, 2023	20,190,350	(623,385)	34,516,913	57,228	34,574,141
Profit	1,837,373		1,837,373	(7,713)	1,829,660
Other comprehensive income			186,413		186,413
Comprehensive income	1,837,373	—	2,023,787	(7,713)	2,016,073
Dividends	(748,669)		(748,669)		(748,669)
Share-based payment transactions		59,398	15,310		15,310
Exercise of stock acquisition rights			7,300		7,300
Total transactions with equity holders	(748,669)	59,398	(726,058)	—	(726,058)
As of May 31, 2023	21,279,055	(563,987)	35,814,642	49,514	35,864,156

(4) Condensed quarterly consolidated statements of cash flows

(Unit: thousand yen)

	Three months ended May 31, 2022	Three months ended May 31, 2023
Cash flows from operating activities		
Profit before income taxes	1,908,084	2,551,294
Depreciation and amortization expenses	392,308	386,818
Finance income	(11,955)	(4,660)
Finance costs	51,490	40,071
Decrease (increase) in trade and other receivables	(238,254)	(967,535)
Increase (decrease) in trade and other payables	63,053	(288,907)
Increase (decrease) in contract liabilities	956,147	1,663,884
Others	(321,194)	(191,592)
Subtotal	2,799,679	3,189,373
Interest and dividends received	209	2,959
Interest paid	(20,253)	(18,108)
Income taxes paid	(917,907)	(831,421)
Net cash flows from operating activities	1,861,729	2,342,803
Cash flows from investing activities		
Purchase of property and equipment	(24,887)	(16,456)
Purchase of intangible assets	(108,761)	(220,435)
Payments for leasehold and guarantee deposits	(1,469)	(7,991)
Proceeds from refund of leasehold and guarantee deposits	289	890
Purchase of investment securities	(34,690)	(341,960)
Proceeds from sale and redemption of investment securities	—	34,301
Others	(10,381)	(30,608)
Net cash flows used in investing activities	(179,900)	(582,259)
Cash flows from financing activities		
Repayments of lease liabilities	(90,627)	(91,021)
Dividends paid	(739,670)	(745,957)
Proceeds from issuance of new shares	11,200	7,300
Proceeds from sale of interests in subsidiaries to non-controlling interests	20,000	—
Others	(924)	(924)
Net cash flows used in financing activities	(800,023)	(830,604)
Net foreign exchange differences	42,363	1,019
Net increase (decrease) in cash and cash equivalents	924,169	930,958
Cash and cash equivalents at the beginning of the period	9,016,639	11,175,988
Cash and cash equivalents at the end of the period	9,940,808	12,106,946