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Consolidated Financial Results for the First Quarter of the Fiscal Year Ending February 29, 2024 (Japanese GAAP)

July 14, 2023

Company name  MetaReal Corp. Listing Market TSE

Stock Code 6182 URL <https://www.metareal.jp>

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Scheduled date of filing of quarterly report: July 14, 2023 Scheduled date of commencement of dividend payment -

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results briefings: Yes

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending February 29, 2024 (March 1, 2023-May 31, 2023)

(1) Consolidated Results of Operation (Cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Q1 FY2/24	983	△7.0	111	6.4	124	7.5	59	6.4
Q1 FY2/23	1,058	2.4	104	169.3	116	144.3	55	75.8

(Note) Comprehensive income Q1 FY2/24 59 Millions of yen (6.4%) Q1 FY2/23 55 Millions of yen (75.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Q1 FY2/24	5.57	5.47
Q1 FY2/23	5.24	5.15

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
Q1 FY2/24	4,329	1,192	26.6
FY2/23	4,220	1,133	25.9

(Reference) Shareholders' equity Q1 FY2/24 1,151 Millions of yen FY2/23 1,092 Millions of yen

2. Dividend payment

	Annual dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2/23	-	0.00	-	0.00	0.00
FY2/24	-	-	-	-	-
FY2/24 (Forecast)	-	0.00	-	0.00	0.00

(Note) Revisions to the most recently announced dividend forecast: None

3. Consolidated Business Forecasts for the Fiscal Year Ending February 29, 2024 (March 1, 2023 to February 29, 2024)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	4,589	6.9	611	18.6	-	-	-	-	-

(Note) Revisions to the most recently announced business forecasts: None

◆ Consolidated Business Forecasts by Segment

(Percentages indicate year-on-year changes.)

	Net sales		Operating income	
	Millions of yen	%	Millions of yen	%
Full year				
MT business	3,152	8.3	599	△4.9
HT business	1,416	3.4	254	△4.6
Metaverse business	20	95.0	△280	-
Other corporate expenses	-	-	36	△15.2

(Note) 1. Business results forecasts were made over a range in the fiscal year ended February 28, 2023. However, in light of factors such as accumulation of information from release of speech AI translation services and designation of COVID-19 as a class 5 infectious disease, we have decided to make spot business forecasts for the fiscal year ending February 29, 2024 instead.

Although the above forecasts reflect the impact of Metareal AI (see "Notice Regarding the Commencement of New Businesses by Subsidiaries" released March 8, 2023), expenses in the MT business have been recorded in the same amount as the increase in net sales (430 million yen), which corresponds to 10% of net sales in the previous fiscal year (fiscal year ended February 28, 2023).

Although special expenses through May 31, the launch date for Metareal AI, were limited, forecasts of Metareal AI expenses employ a conservative estimate equal to the increase in sales resulting from Metareal AI. This is because the rapid changes in industry trends and growth curves make estimates difficult, and as a result expenses incurred are equal to their impact on sales.

In addition, for now gains and losses on Metareal AI are recorded under the MT business. Plans call for changing the name of the MT business once actual figures for Metareal AI have increased in importance.

2. [Ordinary income], [Net income attributable to owners of the parent] and [Net income per share] in the consolidated business forecasts for the fiscal year ending February 29, 2024 are not disclosed at this time because of uncertainties in financial plans such as fund-raising in terms of both liabilities and equity associated with Metareal AI of new businesses. We plan to disclose specific figures promptly once we are able to make more accurate projections.

※ Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(Note) For details, please refer to [2. Quarterly Consolidated Financial Statements, (3) Notes on Quarterly Consolidated Financial Statements (Application of Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements)] on page 6 of the Appendix.

(3) Changes in accounting policies, changes in accounting estimates and restatements

① Changes in accounting policies due to revisions of accounting standards, etc.: None

② Changes in accounting policies other than ①: None

③ Changes in accounting estimates: None

④ Restatements: None

(4) Number of shares outstanding (common stock)

① Number of shares outstanding at the end of the period (including treasury stock)

② Treasury shares at the end of the year

③ Average number of shares outstanding during the period (cumulative)

Q1 FY2/24	10,688,460 shares	FY2/23	10,688,460 shares
Q1 FY2/24	468 shares	FY2/23	468 shares
Q1 FY2/24	10,687,992 shares	Q1 FY2/23	10,671,731 shares

※ This quarterly financial report is not subject to the quarterly review by a certified public accountant or an auditing firm.

※ Explanations and other special notes concerning the appropriate use of business forecasts

(Cautionary Statement with Respect to Forward-Looking Statements)

Forecasts of future performance and other forward-looking statements in this document are based on information currently available to the Company and certain assumptions that the Company deems to be reasonable at the time this report was prepared. The Company makes no promises concerning their achievement. Actual results may differ significantly from the forecasts due to various factors. Please refer to [1. Qualitative Information on Consolidated Financial Results (3) Consolidated Business Forecasts] on page 3 of the Appendix for the assumptions underlying the forecasts and cautions concerning the use thereof.

(Method of Obtaining Financial Results Briefing Materials)

Supplementary materials for financial results were disclosed on the TDnet on the same date.

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1. Qualitative Information on Quarterly Financial Results

(1) Results of Operations

During the first quarter of the current fiscal year (March 1 to May 31, 2023), while there was a decrease in income from the previous year in the MT business and the HT business segments, there was a decrease in the amount of loss incurred in the Metaverse business.

As a result, our group posted net sales of 983,792 thousand yen (down 7.0% year on year), operating income of 111,652 thousand yen (up 6.4% year on year), ordinary income of 124,863 thousand yen (up 7.5% year on year), and profit attributable to owners of parent of 59,480 thousand yen (up 6.4% year on year) for the cumulative first quarter of the current fiscal year.

Businesses other than the Metaverse business recorded total sales of 982,342 thousand yen (down 7.0% year on year) and operating income of 167,894 thousand yen (down 22.0% year on year).

The performance of each business segment is as follows:

① MT business

As for the MT business, the amount of orders received was 902,413 thousand yen (up 4.9% year on year) due to strong orders received. Sales were 711,461 thousand yen (down 3.6% year on year) due to the impact of a decrease in orders received in the previous fiscal year. Segment income was 134,042 thousand yen (down 12.8% year on year) due to the impact of upfront spending on the new [Metareal AI] business. As for the [Metareal AI] project that was developed and provided from this fiscal year as a growth measure in the short to medium term, we aim to contribute to business results at an early stage. During the first quarter of the fiscal year, we conducted six product launches, and commenced various proposals and business operations using generative AI, mainly for large customers.

② HT business

As for the HT business, sales were 270,880 thousand yen (down 15.0% year on year), and segment income was 32,396 thousand yen (down 46.8% year on year).

③ Metaverse business

Mid-to-short term growth measures were shifted to the [Metareal AI] project. The Metaverse business reduced investment from a long-term perspective by 10±5 years. As a result, sales were 1,449 thousand yen (down 2.9% year on year), and segment loss was 56,241 thousand yen (segment loss of 110,442 thousand yen in the same period of the previous fiscal year).

(2) Financial Position

(Assets)

Current assets increased by 200,644 thousand yen from the end of the previous fiscal year to 3,173,920 thousand yen at the end of the first quarter of the current fiscal year. This was due mainly to an increase of 155,054 thousand yen in income taxes refund receivable included in other (mostly withholding taxes on intra-group dividends), a decrease of 46,496 thousand yen in notes and accounts receivable, and an increase of 31,282 thousand yen in cash and deposits. Non-current assets decreased by 91,650 thousand yen from the end of the previous fiscal year to 1,155,782 thousand yen. This was due mainly to a decrease of 16,729 thousand yen in property, plant, and equipment and a decrease of 63,979 thousand yen in intangible assets.

(Liabilities)

Current liabilities increased by 197,790 thousand yen from the end of the previous fiscal year to 2,187,282 thousand yen at the end of the first quarter of the current fiscal year. This was due mainly to an increase of 215,815 thousand yen in advances received. Non-current liabilities decreased by 148,277 thousand yen from the end of the previous fiscal year to 949,621 thousand yen. This was due mainly to a decrease of 96,495 thousand yen in long-term debt and a decrease of 45,000 thousand yen in bonds.

(Net assets)

Net assets increased by 59,480 thousand yen from the end of the previous fiscal year to 1,192,798 thousand yen at the end of the first quarter of the current fiscal year. This was mainly due to an increase of 59,480 thousand yen in retained earnings as a result of recording profit attributable to owners of the parent.

(3) Consolidated Business Forecasts

Our two management themes for the future are:

① [Metaverser] concept in the Metaverse business and its method [Metaverse×AI]

As a long-term growth strategy aiming to achieve results in five years or longer, the Metaverse business will focus on the Metaverser initiative and [Metaverse×AI] as a means of implementing it.

② MT business and [Metareal AI] project

We will continue to aim for stable growth in the MT business, which provides services such as T-400 and T-3MT for AI document translation and Onyaku for speech AI translation. The AI-related service unified platform [Metareal AI] released on the end of May integrates not only generative AI services such as ChatGPT but also numerous other AI service lines for corporate use. We have begun development of this platform and providing it for use in order swiftly to provide not only proprietary applications but also state-of-the-art AI services from around the world, while also serving as a bridge for connecting with Japanese companies. We aim to develop a comprehensive environment in which Japanese companies can adapt to the rapid global trend toward AI. Through the MT business and the [Metareal AI] project, we aim to grow by 5% to 20%.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (February 28, 2023)	Current first quarter (May 31, 2023)
Assets		
Current assets		
Cash and deposits	2,523,695	2,554,978
Notes and accounts receivable	278,738	232,241
Inventories	16,075	18,720
Other	196,817	398,805
Allowance for doubtful accounts	△42,051	△30,825
Total current assets	2,973,276	3,173,920
Non-current assets		
Property, plant and equipment	117,936	101,207
Intangible assets		
Goodwill	6,709	5,032
Software	647,051	574,837
Software in progress	572	12,172
Other	16,752	15,064
Total intangible assets	671,086	607,106
Investments and other assets		
Investment securities	86,071	86,071
Other	372,338	361,396
Total investments and other assets	458,409	447,467
Total non-current assets	1,247,433	1,155,782
Total assets	4,220,709	4,329,702
Liabilities		
Current liabilities		
Notes and accounts payable-trade	74,270	57,541
Short-term borrowings	100,000	-
Current portion of long-term loans payable	385,980	385,980
Current portion of corporate bonds	134,000	134,000
Income taxes payable	28,913	74,773
Provision for bonuses	44,860	86,289
Advances received	859,439	1,075,254
Other	362,028	373,442
Total current liabilities	1,989,491	2,187,282
Non-current liabilities		
Corporate bonds	388,000	343,000
Long-term debt	669,550	573,055
Other	40,349	33,566
Total non-current liabilities	1,097,899	949,621
Total liabilities	3,087,391	3,136,903
Net assets		
Shareholders' equity		
Common stock	786,021	786,021
Capital surplus	1,759,968	1,759,968
Retained earnings	△1,452,866	△1,393,386
Treasury stock	△951	△951
Total shareholders' equity	1,092,171	1,151,652
Share subscription rights	41,146	41,146
Total net assets	1,133,318	1,192,798
Total liabilities and net assets	4,220,709	4,329,702

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the Three-month Period)

(Thousands of yen)

	Previous first quarter (From March 1, 2022 to May 31, 2022)	Current first quarter (From March 1, 2023 to May 31, 2023)
Net sales	1,058,240	983,792
Cost of sales	396,877	332,537
Gross profit	661,363	651,254
Selling, general and administrative expenses		
Salaries, allowances and bonuses	163,789	159,087
Research and development expenses	53,219	51,999
Provision for bonuses	33,075	31,312
Retirement benefit expenses	1,737	1,935
Other	304,608	295,267
Total selling, general and administrative expenses	556,430	539,601
Operating income	104,933	111,652
Non-operating income		
Interest income	11	11
Foreign exchange gain	46	650
Subsidy income	8,969	16
Reversal of allowance for doubtful accounts	16,067	20,875
Other	694	1,270
Total non-operating income	25,790	22,824
Non-operating expenses		
Interest expenses	3,526	2,669
Share of loss of investments accounted for using equity method	3,005	6,246
Bond issuance expenses	6,624	-
Other	1,412	697
Total non-operating expenses	14,568	9,613
Ordinary income	116,154	124,863
Special income		
Income on sales of non-current assets	-	831
Total special income	-	831
Special loss		
Loss on sales and retirement of noncurrent assets	2,260	-
Impairment loss	-	2,826
Total special loss	2,260	2,826
Income before income taxes	113,894	122,868
Income taxes	58,015	63,388
Net income	55,879	59,480
Net income attributable to owners of parent	55,879	59,480

(Quarterly Consolidated Statement of Comprehensive Income)
(For the Three-month Period)

(Thousands of yen)

	Previous first quarter (From March 1, 2022 to May 31, 2022)	Current first quarter (From March 1, 2023 to May 31, 2023)
Net income	55,879	59,480
Comprehensive income	55,879	59,480
Comprehensive income (loss) attributable to:		
Owners of parent	55,879	59,480
Non-controlling interests	-	-

(3) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Application of Accounting Procedures Specific to Preparation of the Quarterly Consolidated Financial Statements)

Income taxes are calculated by multiplying the income before income taxes by the forecasted effective tax rate, which is computed by matching the forecasted yearly income taxes with the forecasted yearly income before taxes.

However, if the calculation of tax expenses using the estimated effective tax rate yields a highly unreasonable result, then the statutory tax rate is used.

(Additional Information)

(Handling of Accounting and Disclosure for Application of the Group Comprehensive Accounting System)

We, as well as some of our domestic consolidated subsidiaries, have shifted from the consolidated tax payment system to the group-wide tax system since the first quarter of the current fiscal year. Accordingly, accounting and disclosure of income taxes, local income taxes, and tax-effect accounting are conducted in accordance with [Treatment of Accounting and Disclosure for Application of the Group Comprehensive Accounting System] (Practical Issues Task Force No. 42, August 12, 2021. Hereinafter referred to as [Practical Solution Report No. 42]). In addition, in accordance with Paragraph 32(1) of Practical Issues Task Force No. 42, we do not deem the impact of changes in accounting policies due to the application of Practical Issues Task Force No. 42.

(Notes to the Quarterly Consolidated Statements of Income)

(Impairment loss)

Previous first quarter (From March 1, 2022 to May 31, 2022)

Not applicable.

Current first quarter (From March 1, 2023 to May 31, 2023)

This information is omitted because it is not material.

(Segment Information)

[Segment Information]

I Previous first quarter (From March 1, 2022 to May 31, 2022)

Information on net sales and income or loss by reportable segment and breakdown of income

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1)	Amounts on the consolidated financial statements (Note 2)
	MT business	HT business	Metaverse business	Total		
By type of goods or services						
Machine translation	729,008	7,833	-	736,842	-	736,842
Human translation	9,105	310,799	-	319,905	-	319,905
Metaverse	-	-	1,493	1,493	-	1,493
Revenue from contracts with customers	738,114	318,633	1,493	1,058,240	-	1,058,240
Revenue recognition by period						
Goods or services that are transferred at one time	86,490	283,646	1,493	371,630	-	371,630
Goods or services that are transferred over a period of time	651,623	34,986	-	686,610	-	686,610
Revenue from contracts with customers	738,114	318,633	1,493	1,058,240	-	1,058,240
Net sales to unaffiliated customers	738,114	318,633	1,493	1,058,240	-	1,058,240
Intersegment sales or transfer	1,134	10,348	-	11,483	△11,483	-
Total	739,249	328,981	1,493	1,069,723	△11,483	1,058,240
Segment income or loss (△)	153,631	60,846	△110,442	104,036	897	104,933

(Note) 1. Adjustments to segment income or loss (△) of 897 thousand yen include elimination of intersegment transactions and corporate expenses. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.

2. Segment income or loss (△) is adjusted with operating income in the quarterly consolidated statements of income.

II Current first quarter (From March 1, 2023 to May 31, 2023)

1. Information on net sales and income or loss by reportable segment and breakdown of income

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1)	Amounts on the consolidated financial statements (Note 2)
	MT business	HT business	Metaverse business	Total		
By type of goods or services						
Machine translation	687,478	8,149	-	695,627	-	695,627
Human translation	17,624	262,731	-	280,355	-	280,355
Metaverse	-	-	1,449	1,449	-	1,449
Consigned development	6,359	-	-	6,359	-	6,359
Revenue from contracts with customers	711,461	270,880	1,449	983,792	-	983,792
Revenue recognition by period						
Goods or services that are transferred at one time	63,766	235,123	943	299,832	-	299,832
Goods or services that are transferred over a period of time	647,695	35,757	506	683,959	-	683,959
Revenue from contracts with customers	711,461	270,880	1,449	983,792	-	983,792
Net sales to unaffiliated customers	711,461	270,880	1,449	983,792	-	983,792
Intersegment sales or transfer	1,535	12,457	-	13,993	△13,993	-
Total	712,997	283,337	1,449	997,785	△13,993	983,792
Segment income or loss (△)	134,042	32,396	△56,241	110,197	1,455	111,652

(Note) 1. Adjustments to segment income or loss (△) of 1,455 thousand yen include elimination of intersegment transactions and corporate expenses. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.

2. Segment income or loss (△) is adjusted with operating income in the quarterly consolidated statements of income.

2. Information on impairment loss on noncurrent assets or goodwill by reportable segment
(Significant impairment loss on noncurrent assets)

This information is omitted because it is not material.

(Per share Information)

Net income per share and the basis for calculating it, and diluted net income per share and the basis for calculating it are as follows.

	Previous first quarter (From March 1, 2022 to May 31, 2022)	Current first quarter (From March 1, 2023 to May 31, 2023)
(1) Net income per share	5.24 yen	5.57 yen
(Basis of calculation)		
Net income attributable to owners of parent (thousands of yen)	55,879	59,480
Amount not attributable to common shareholders (thousands of yen)	-	-
Net income attributable to owners of parent related to common stock (thousands of yen)	55,879	59,480
Average number of shares of common stock outstanding during the period (shares)	10,671,731	10,687,992
(2) Diluted net income per share	5.15 yen	5.47 yen
(Basis of calculation)		
Adjustment to net income attributable to owners of parent (thousands of yen)	-	-
Increase in number of common shares (shares)	182,055	178,445
Outline of potential shares that had not been included in the calculation of diluted net income per share because they had no dilutive effect, and that had changed significantly since the end of the previous fiscal year	-	-

(Significant Subsequent Events)

Not applicable.