

Financial Results
for the Six Months Ended December 31, 2023
[Japanese GAAP]
(Non-consolidated)



February 2, 2024

Company name: WELLNET CORPORATION
 Stock exchange listing: Tokyo Stock Exchange, Sapporo Securities Exchange
 Code number: 2428
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 Scheduled date of filing quarterly securities report: February 13, 2024
 Scheduled date of commencing dividend payments: –
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of quarterly financial results briefing session: Yes

(Amounts of less than one million yen are rounded down.)

1. Financial Results for Six Months Ended December 31, 2023 (July 1, 2023 to December 31, 2023)

(1) Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended								
December 31, 2023	4,897	(0.5)	563	0.2	564	0.4	385	(13.4)
December 31, 2022	4,920	10.5	562	46.2	561	45.3	444	57.6

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2023	20.39	20.26
December 31, 2022	23.58	23.37

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2023	27,164	7,917	28.8	414.01
As of June 30, 2023	24,892	7,826	31.1	410.38

(Reference) Equity: As of December 31, 2023: ¥7,825 million
 As of June 30, 2023: ¥7,745 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended June 30, 2023	Yen –	Yen 0.00	Yen –	Yen 16.84	Yen 16.84
Fiscal year ending June 30, 2024	–	0.00			
Fiscal year ending June 30, 2024 (Forecast)			–	21.00	21.00

(Note) Revision of dividends forecast from recently announced figures: No

3. Financial Results Forecast for the Fiscal Year Ending June 30, 2024 (July 1, 2023 to June 30, 2024)

(% indicates changes from the previous corresponding period.)

	Net sales		Ordinary profit		Profit		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Yen
	10,160	7.8	1,150	22.9	790	24.3	41.86

(Note) Revision of financial results forecast from recently announced figures: No

* Notes:

- (1) Adoption of special accounting procedures for preparing quarterly financial statements: No
- (2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (3) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
 - As of December 31, 2023: 19,400,000 shares
 - As of June 30, 2023: 19,400,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - As of December 31, 2023: 518,390 shares
 - As of June 30, 2023: 525,475 shares
 - 3) Average number of shares during the period:
 - Six months ended December 31, 2023: 18,881,610 shares
 - Six months ended December 31, 2022: 18,858,254 shares

* These financial results are outside the scope of quarterly review procedures by a certified public accountant or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

The financial results forecast and dividends forecast above are based on certain assumptions judged to be reasonable based on information available to the Company at the time of the announcement of this document. Actual business performance and dividends may differ from the forecasts due to various factors that may arise in the future.

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1. Qualitative Information on Financial Results for the Period under Review

(1) Explanation of Business Results

1) Analysis of Business Results

The Japanese economy in the six months of the fiscal year under review (July 1, 2023 to December 31, 2023) continued to encounter uncertainties ahead caused mainly by unstable international affairs, growing distrust in the political situation in Japan, and the sharp rise in resource prices and energy bills. Meanwhile, the impact of the COVID-19 pandemic on economic activity has mostly dissipated.

Under these circumstances, in the Company's main business domain markets, the transportation-related businesses such as airlines, buses, and railroads have been on a path of recovery. At the same time, Digital Transformation (DX) is being actively promoted in a variety of industries and business categories, and IT is playing an increasingly important role in society.

The Company has also been promoting activities such as "Response to the age of electronic payment" and "IT Promotion Solution Project for the transportation industry and the MaaS Business" as priority measures, with "paperless" and "cashless" as the keywords, and conducting measures considering a lifestyle-based fin-tech platform in this context, and has focused on expanding "Payment Plus Alpha Platform," including expansion of the use of a DX tool for membership management, *ekaiin.com*, and provision of the new service for issuing and storing electronic invoices, *SHIMA-YELL*.

For *ekaiin.com* of the "Payment Plus Alpha Platform," although the number of users has been steady, net sales decreased year on year due to the reactionary drop following the projects secured in fiscal 2022 for solicitation of support for future support crowdfunding for restaurants in Sapporo. However, through new development of the "*ekaiin Enrollment Website for Temples*" and other efforts, the Company has started to approach areas in which DX is expected to grow.

Regarding *SHIMA-YELL*, the Company has received orders for large projects related to revisions to the Invoice System and the Act concerning Preservation of Electronic Books, and is promoting sales activities to acquire additional customers.

In addition to the above services, for the "all-in-one cloud-based services for transport operators" that have been promoting expanded provision of development and platforms, the Company has decided on the name of "Surutto QRtto" for the KANSAI THRU PASS digital travel pass service using QR Codes, and the time has finally come for a full-fledged rollout, including the announcement of the planned commencement of services in June 2024. Meanwhile, for the other large-scale development project "electronic money," we are continuing to prepare for the expansion of our services in anticipation of the next generation, such as by making system upgrades that enable each company to use its own money. In line with the expectation that future projects will become large in scale and other factors, the Company is working to quickly strengthen the sales organization, establish a three-location network with operations in Sapporo, Tokyo, and Osaka, and prepare for full-fledged sales activities more strongly rooted in local communities.

As a result of these efforts, with respect to business results for the six months ended December 31, 2023, the Company reported net sales of ¥4,897 million (down 0.5% year on year), operating profit of ¥563 million (up 0.2% year on year), ordinary profit of ¥564 million (up 0.4% year on year) and profit of ¥385 million (down 13.4% year on year). Although net sales declined slightly year on year owing to an increase in high value-added products, operating profit and ordinary profit rose. Profit also declined, but this was mainly due to the recording of ¥88 million in subsidy income as extraordinary income in the previous fiscal year.

Furthermore, to increase the social significance of the Company's business activities and boost our corporate value, rather than investing our resources to maintain our listing on the Tokyo Stock Exchanges Prime Market, we decided that concentrating our limited management resources in developing our businesses would better contribute to boosting our corporate value, and transitioned to the Standard Market on October 20, 2023.

2) Changes in Environment Surrounding the Company and Response Strategy

The online payment market, the Company's business domain, is expected to continue achieving a certain level of growth in the future, but we believe that the expansion of electronic payment will lead to the commoditization of payments themselves, and we are making efforts to expand and improve cloud services that support DX for businesses as a concrete form of payment plus alpha.

A. "Smartphone payment service," *Shiharai-Hisho* and our response to electronic money during the shift to paperless and cashless

Shiharai-Hisho, which carries out payments via bank-account-linked smartphones, has already been introduced at eight electric power companies, and the number of payments for local taxation and public utility charges that can be made using *Shiharai-Hisho* is also increasing, especially in areas where there are many partner banks, in addition to expanding a seamless linkage with the Company's cloud services as described in B below, which are *Bus Mori!*, *ALTAIR triple star*, and *ekain.com*, as well as developing embedded electronic money, as we expect a trend of the inclusion of electronic money in our own services in the future. We are engaged in sales activities to link with the cloud services of transportation operations and evolve them into total services.

B. Actively promoting IT projects for transportation operators

Launched in August 2016, the smartphone electronic ticketing application *Bus Mori!* has expanded the types of electronic ticket to include single-trip tickets, coupon tickets, commuter passes, unlimited ride passes, and discount passes, and now handles more than 628 routes of bus and rail. In the wake of the COVID-19 pandemic, the Company is expanding smartphone commuter passes and smartphone coupon tickets, which can be purchased non-face-to-face. *ALTAIR triple star*, the cloud service for transport business operators, which we have been developing since 2017, is an all-in-one total cloud service that can automate a series of operations, from inventory and timetable management for rides and events, ticket reservation, purchase, issuance, and authentication, to sales information aggregation and settlement processing. The use of *ALTAIR triple star* has been expanding as a MaaS platform in regions throughout Japan and as an effective tool for promoting DX in transport-related companies. In the case of MaaS, which is provided jointly by multiple operators, our extensive knowledge and experience in the labor-intensive settlement operations is a major advantage.

C. Current status of WELLNET's key products, Multi Payment Services and Money Transfer Services

Multi Payment Services and Money Transfer Services are expected to have the potential for continued growth as a non-face-to-face payment platform. Various operators have been adopting the Company's payment services for over 30 years, and the Company aims to continue to enhance payment gateway services that contribute to increase in convenience for both operators and consumers. The Company will continue to promote the development of payments and more services, and we believe that we have a significant advantage in this area because of our payment infrastructure.

In September 2022, the new smartphone barcode payment service *stanp* developed by the Company was adopted by Family Mart stores all around Japan. The number of customers using *stanp* is steadily increasing as it improves convenience by allowing customers to make payments in real time by just directly scanning a barcode shown on their smartphone at the store cash registers. Going forward, the Company will actively promote sales activities to have the service adopted at convenience stores other than Family Mart as well.

D. Activities contributing to local communities

We recognize that our business of "IT utilization and DX" itself supports the shift to an environmentally friendly business model, and that business expansion itself contributes to global environmental conservation.

As part of our social contribution, we are providing support to many students through our WELLNET Scholarship, established to help financially struggling students at colleges of technology in Hokkaido. Approximately ¥86 million in scholarships was paid to a total of 768 students until the fiscal year 2022,

directly contributing to zero students dropping out due to economic difficulties in the past three years. We will continue these activities moving forward.

Furthermore, with the aim of contributing to the promotion of local sports, the Company has participated in the “Scrum Sapporo” concept promoted by Hokkaido All Olympians, and concluded a sponsorship agreement in April 2022 to begin supporting Masaya Yamada, a speed skater who holds the Japanese record in the men’s 1,000 meters and is expected to compete in the Olympics. He has been active as an employee of the Company since April 2023. In November 2023, Masaya Yamada became the first Japanese skater to win the gold medals in the men’s 1000m and 1500m races at the “ISU World Cup Speed Skating 2023/2024 Obihiro, Japan” event held at the Meiji Hokkaido Tokachi Oval in Obihiro City. We intend to actively utilize *ekaiin.com* to support athletes and also support the promotion of sports through the Company’s IT services.

Our new Sapporo head office, which was completed in 2021 and is already in operation, received the platinum rank of WELL Certification in September 2022 for implementing office design that considers the health and working environment of our employees. The WELL Certification is an advanced initiative that began in 2014 in the U.S. to evaluate and certify spaces including buildings and offices from the standpoint of human health. Furthermore, in August 2023, our Sapporo head office won the “36th Nikkei New Office Awards,” a system that awards creativity in office design. These initiative represents an investment in our employees as human capital, and we also believe that it will lead to increased corporate value in the form of increased productivity and workstyle reforms.

E. Performance forecast and shareholder returns

Regarding our performance forecast, no changes have been made to the “Financial Results Forecast for the Fiscal Year Ending June 30, 2024” provided in the “Financial Results for the Fiscal Year Ended June 30, 2023 [Japanese GAAP] (Non-consolidated)” announced on August 14, 2023. In addition, we plan for the dividend payout ratio to be 50% or more.

(2) Explanation of Financial Position

1) Status of assets, liabilities, and net assets

Total assets as of December 31, 2023 stood at ¥27,164 million. Current assets were ¥21,618 million. This mainly comprises cash and deposits of ¥16,654 million. Cash and deposits include ¥12,479 million of receiving agency deposits in money collection business, which is the money kept temporarily by the Company up to the predetermined date of transfer to operators in the following month. Non-current assets amounted to ¥5,545 million. This mainly comprises property, plant and equipment of ¥3,834 million, intangible assets of ¥367 million, and investments and other assets of ¥1,343 million.

Meanwhile, total liabilities amounted to ¥19,247 million. This mainly comprises receiving agency deposits of ¥12,479 million.

Total net assets amounted to ¥7,917 million. This mainly comprises shareholders’ equity of ¥7,820 million.

(Reference) Cash and deposits, net (net balance of cash and deposits after offsetting receiving agency deposits related to money collection business)

	(Millions of yen)	
	As of June 30, 2023	As of December 31, 2023
(A) Cash and deposits	14,070	16,654
(B) Receiving agency deposits	10,441	12,479
(A)-(B) Cash and deposits, net	3,629	4,275

2) Status of cash flows

Cash and cash equivalents (the “funds”) as of December 31, 2023 stood at ¥16,654 million. The status of cash flows and their contributing factors are as follows.

(Cash flows from operating activities)

Funds provided by operating activities amounted to ¥2,550 million. The main factor for the increase is a ¥2,038 million increase in receiving agency deposits, which are temporarily held by the Company as they are sent to vendors on a designated date in the following month. Funds from other operating activities were ¥554 million, excluding the increase in receiving agency deposits, mainly due to the recording of ¥512 million in profit before income taxes.

(Reference) Cash flows from operating activities adjusted for increase (decrease) in receiving agency deposits
(Millions of yen)

	For the six months ended December 31, 2023
(A) Cash flows from operating activities	2,550
(B) Increase (decrease) in receiving agency deposits	2,038
(A)-(B) Cash flows from operating activities after adjustment	512

(Cash flows from investing activities)

Funds provided by investing activities amounted to ¥375 million. The main factor for the increase is proceeds from refund of leasehold and guarantee deposits of ¥510 million, while the main factor for the decrease is purchase of investment securities of ¥101 million.

(Cash flows from financing activities)

Funds used in financing activities amounted to ¥341 million. The main factor for the decrease is dividends paid of ¥316 million.

(3) Explanation of Financial Results Forecast and Other Forward-looking Information

No changes have been made to the financial results forecast for the fiscal year ending June 30, 2024 provided in the “Financial Results for the Fiscal Year Ended June 30, 2023 [Japanese GAAP] (Non-consolidated)” announced on August 14, 2023.

2. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2023	As of December 31, 2023
Assets		
Current assets		
Cash and deposits	14,070,800	16,654,813
Accounts receivable - trade, and contract assets	604,434	739,962
Merchandise	3,532	3,722
Work in process	1,313	–
Supplies	898	1,135
Prepaid expenses	44,513	43,566
Deposits paid	3,449,042	3,471,452
Other	581,691	704,167
Total current assets	18,756,227	21,618,821
Non-current assets		
Property, plant and equipment	3,888,345	3,834,861
Intangible assets	444,212	367,889
Investments and other assets	1,803,621	1,343,172
Total non-current assets	6,136,180	5,545,922
Total assets	24,892,407	27,164,744
Liabilities		
Current liabilities		
Accounts payable - trade	440,937	520,032
Deposits received	3,584,744	3,729,482
Current portion of long-term borrowings	75,000	100,000
Receiving agency deposits	10,441,061	12,479,275
Income taxes payable	223,285	189,237
Provision for bonuses	20,697	18,352
Provision for point card certificates	16	839
Other	319,833	290,961
Total current liabilities	15,105,577	17,328,181
Non-current liabilities		
Long-term borrowings	1,725,000	1,675,000
Provision for share awards	77,221	82,105
Asset retirement obligations	13,432	15,879
Long-term accounts payable - other	119,007	119,007
Other	25,222	27,219
Total non-current liabilities	1,959,883	1,919,211
Total liabilities	17,065,461	19,247,393
Net assets		
Shareholders' equity		
Share capital	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	4,264,341	4,314,720
Treasury shares	(703,349)	(671,117)
Total shareholders' equity	7,737,990	7,820,601
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	7,791	4,913
Total valuation and translation adjustments	7,791	4,913
Share acquisition rights	81,164	91,835
Total net assets	7,826,946	7,917,350
Total liabilities and net assets	24,892,407	27,164,744

(2) Statement of Income
(Six months ended December 31)

(Thousands of yen)

	Six months ended December 31, 2022	Six months ended December 31, 2023
Net sales	4,920,399	4,897,559
Cost of sales	3,939,107	3,881,393
Gross profit	981,292	1,016,165
Selling, general and administrative expenses	418,490	452,294
Operating profit	562,802	563,871
Non-operating income		
Interest income	526	26
Foreign exchange gains	1,508	–
Gain on forfeiture of unclaimed dividends	1,164	437
Rental income	625	300
Other	1,237	1,492
Total non-operating income	5,062	2,256
Non-operating expenses		
Interest expenses	1,903	1,802
Share acquisition rights issuance costs	2,570	–
Loss on investments in investment partnerships	1,560	199
Total non-operating expenses	6,033	2,002
Ordinary profit	561,831	564,125
Extraordinary income		
Gain on reversal of share acquisition rights	756	60
Subsidy income	88,399	–
Total extraordinary income	89,155	60
Profit before income taxes	650,987	564,185
Income taxes - current	206,856	168,262
Income taxes - deferred	(492)	10,892
Total income taxes	206,363	179,154
Profit	444,623	385,030

(3) Statement of Cash Flows

(Thousands of yen)

	Six months ended December 31, 2022	Six months ended December 31, 2023
Cash flows from operating activities		
Profit before income taxes	650,987	564,185
Gain on reversal of share acquisition rights	(756)	(60)
Depreciation	199,680	164,523
Interest and dividend income	(526)	(50)
Interest expenses	1,903	1,802
Loss (gain) on investments in investment partnerships	1,560	199
Decrease (increase) in trade receivables	(151,021)	(135,527)
Decrease (increase) in inventories	(338)	885
Increase (decrease) in trade payables	64,535	79,095
Decrease (increase) in deposits paid	648	(22,410)
Increase (decrease) in deposits received	107,309	144,737
Increase (decrease) in receiving agency deposits	4,920,314	2,038,213
Other, net	(258,456)	(83,140)
Subtotal	5,535,838	2,752,454
Interest and dividends received	8,022	50
Interest paid	(986)	(914)
Income taxes paid	(139,322)	(201,101)
Net cash provided by (used in) operating activities	5,403,551	2,550,489
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	80,021	–
Purchase of property, plant and equipment	(3,239)	(12,183)
Purchase of intangible assets	(52,634)	(25,208)
Proceeds from sale of property, plant and equipment	251,561	–
Proceeds from redemption of investment securities	200,000	–
Purchase of investment securities	–	(101,388)
Proceeds from share of profits on investments in capital	5,000	7,000
Payments of leasehold and guarantee deposits	(36,187)	(3,137)
Proceeds from refund of leasehold and guarantee deposits	–	510,320
Net cash provided by (used in) investing activities	444,523	375,403
Cash flows from financing activities		
Proceeds from issuance of share acquisition rights	5,400	–
Repayments of long-term borrowings	(25,000)	(25,000)
Dividends paid	(266,387)	(316,879)
Net cash provided by (used in) financing activities	(285,987)	(341,879)
Net increase (decrease) in cash and cash equivalents	5,562,087	2,584,013
Cash and cash equivalents at beginning of period	13,049,269	14,070,800
Cash and cash equivalents at end of period	18,611,356	16,654,813

(4) Notes to Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes to substantial change in the amount of shareholders' equity)

There is no relevant information.

(Adoption of special accounting procedures for preparing quarterly financial statements)

There is no relevant information.

(Changes in accounting policies)

There is no relevant information.

(Changes in accounting estimates)

There is no relevant information.

(Significant subsequent events)

There is no relevant information.