February 14, 2024

Company name: V-cube, Inc.
Chairman & Group CEO: Naoaki Mashita
Tokyo Stock Exchange, Prime Market (stock code: 3681)
Contact: Director & CFO, Corporate Planning Division General Manager
Kazuki Yamamoto (TEL.03-6625-5011)

Notice of Extraordinary Loss (Impairment Loss), Reversal of Deferred Tax Assets, Difference between Earnings Forecast and Actual Results, Expected Breach of Financial Covenants, and Reduction of Executive Compensation

V-cube, Inc. (hereinafter "the Company") hereby announces that it has recorded an extraordinary loss (impairment loss) and reversal of deferred tax assets in its financial results for the fiscal year ended December 31, 2023, as well as a difference between its full-year earnings forecast announced on November 14, 2023, and the actual results announced today. In addition, due to the decrease in net assets, the Company expects to breach the financial covenants in the loan agreements it has entered with financial institutions.

Based on the business results, the Company has decided to reduce the executive compensation to clarify their management responsibility. We will rebuild our management base by implementing buyout packages since last fall, reduction of purchasing and other costs, contraction and withdrawing from unprofitable businesses, in order to achieve a solid recovery and subsequent growth for the fiscal year ending December 31, 2024.

1. Extraordinary loss (Impairment loss) and reversal of deferred tax assets

(1) Software

V-CUBE Meeting has been the mainstay product in the general-purpose web conferencing domain and has driven our business for a long period of time. However, due to a change in strategy in 2017, with the launch of Zoom sales and redirecting management resources to the Event DX business, the Third Place DX business such as Telecube, and providing SDKs for video technology, V-CUBE Meeting has been terminated and replaced by Zoom for the long term. Based on this strategy, and in light of the declining profitability trend of this product, the Company impaired the book value of a portion of its software to its recoverable amount in the fiscal year ended December 31, 2022, and again reassessed the future recoverability of its software assets in the fiscal year ending December 31, 2023, and decided to write down a portion.

As in the fiscal year ended December 31, 2022, the Company also decided to write down the portion of software assets that corresponds to the development of the previous version of a particular product upon the release of a new version of the product, as well as software assets that are not expected to be sufficiently profitable in the future.

As a result, the Company recorded an impairment loss of 531 million yen for software assets.

In addition, as a result of a review of the recoverability of deferred tax assets based on the profit level for the fiscal year ending December 31, 2023, and future prospects, a part of deferred tax assets was reversed and income taxes-deferred of 173 million yen was recorded.

(2) Consolidated subsidiary Xyvid, Inc.

After reviewing the future plans of Xyvid Inc. (hereinafter "Xyvid"), a consolidated subsidiary, the Company determined that it would be difficult to achieve the initially projected earnings. As a result, the Company recorded an impairment loss of 3,223 million yen for goodwill related to Xyvid.

At the same time, based on the actual and expected taxable income, Xyvid reversed the entire amount of deferred tax assets in accordance with U.S. GAAP and recorded an income taxes-deferred of 1,178 million yen.

Xyvid, which operates the Event DX business in North America, was acquired by the Company in June 2021, and contributed to the growth of the Group with significant results through the first half of the year ending December 31, 2022. However, the impact of the return to face-to-face business due to the convergence of the COVID-19 has been greater than in Japan, and Xyvid, which offers online and hybrid events, has been performing below expectations since the second half of the fiscal year ended December 31, 2022. The heavy goodwill amortization burden incurred at the time of acquisition put pressure on the Group's earnings.

As of the end of the fiscal year ended December 31, 2023, Xyvid had hired a new CEO and CFO, streamlined its organization, completed strengthening its sales structure, and acquired new clients, mainly large corporations, resulting in sales growth in the second half of the fiscal year ended December 31, 2023 compared to the same period last year. Xyvid will continue to be an important group company within our group, aiming for medium- to long-term growth, and we will work to expand our group in North America, where the market size is huge.

2. Difference between earnings forecast and actual results

(1) Difference between consolidated earnings forecast and actual results for the fiscal year ending December 31, 2023

(January 1, 2023, to December 31, 2023)

(Millions of yen)

	Net Sales	Adjusted EBITDA	Adjusted Operating Profit	Operating profit
Previous Forecasts (A)	11,500	1,570	475	100
Actual results (B)	11,084	1,289	240	△156
Change (B-A)	△416	△281	△235	△256
Rate of change (%)	△3.6%	△17.9%	△49.5%	—
(Reference) Results of previous period (ended December 31, 2021)	12,229	1,945	1,025	675
	Ordinary profit	Net Profit attributable to owners of parent	Net Profit per share	
Previous Forecasts (A)	10	△276	△11.37 yen	
Actual results (B)	△275	△5,623	△231.68 yen	
Change (B-A)	△285	△5,347		
Rate of change (%)	—	—		

(Reference) Results of previous period (ended December 31, 2021)	612	84	3.49 yen	

(2) Reason for Difference

In terms of net sales, the Company revised its forecast on August 10, 2023. However, in the second half of the fiscal year ending December 31, 2023, the Company's forecast was lower than its full-year consolidated forecast due to continued weakness in the domestic pharmaceutical area, human resources area, and Xyvid in the Event DX business as well as a decline in the number of Telecube units installed for public use in the Third Place DX business.

In terms of profit, in addition to the shortfall in sales, the depreciation of the yen had an impact on overseas product purchases, the operating loss of Xyvid, and amortization of goodwill of overseas subsidiaries. In addition, although the company is working on management rationalization measures such as cost reductions and sales price increases, the improvement in profitability through these measures will mainly take effect from the fiscal year ending December 31, 2024, onward, resulting in operating loss and ordinary loss.

Net income attributable to shareholders of the parent company differed significantly from the full-year consolidated earnings forecast due to impairment losses and other factors described in "1. Extraordinary Losses (Impairment Losses)".

3. Expected Breach of Financial Covenants

The Group recorded a net loss attributable to owners of the parent for the current consolidated fiscal year mainly due to impairment of goodwill of its consolidated subsidiary Xyvid, Inc. As a result, net assets decreased, and the Company expects to breach financial covenants in loan agreements with financial institutions. Although the breach would affect the Company's cash management and there are events that raise significant doubts about the Company's ability to continue as a going concern, the Company has requested that the financial institutions from which it borrows continue the relevant agreements without applying the acceleration clause.

On the business, following the management rationalization measures implemented in 2023, we will promote thorough cost reductions, including cost improvement, and measures to select and concentrate on self-developed products to rebuild our management base with further improvements in profitability. In addition, to stabilize our financial position, we will consider and implement further financial measures in consultation with financial institutions.

By taking these measures, we expect our financial situation to remain stable for the time being.

Considering the above, the Company has determined that there are no significant uncertainties regarding the premise of a going concern.

4. Reduction of executive compensation

To take seriously the Company's performance for the fiscal year ending December 31, 2023, and to clarify its management responsibility, the Company has decided to reduce the executive compensation as follows.

(1) Details of reduction in executive compensation

Chairman & Group CEO (Founder) 30% of monthly compensation

President & CEO	25% of monthly compensation
Vice President	20% of monthly compensation
3 Directors	15% of monthly compensation
6 Outside Directors (including Audit & Supervisory Committee Members)	10% of monthly compensation

(2) Period

From February 2024 to March 2024 (2 months)