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February 14, 2024

Consolidated Financial Results for the Fiscal Year Ended December 31, 2023 (Under Japanese GAAP)

Company name: Headwaters Co., Ltd.
Listing: Tokyo Stock Exchange
Securities code: 4011
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Scheduled date of annual general meeting of shareholders: March 29, 2024
Scheduled date to commence dividend payments: -
Scheduled date to file annual securities report: March 29, 2024
Preparation of supplementary material on financial results: Yes
Holding of financial results briefing: Yes (for institutional investors/analysts and individual investors)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the fiscal year ended December 31, 2023 (January 1, 2023 – December 31, 2023)

(1) Consolidated operating results (Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2023	2,315	47.0	94	(13.8)	98	(8.1)	70	(5.9)
December 31, 2022	1,574	-	110	-	106	-	75	-

Note: Comprehensive income For the fiscal year ended December 31, 2023: ¥70 million[down 5.6%]
For the fiscal year ended December 31, 2022: ¥75 million [-%]

Fiscal year ended	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
December 31, 2023	37.70	33.98	7.7	8.0	4.1
December 31, 2022	40.13	37.26	8.6	9.1	7.0

Reference: Share of profit (loss) of entities accounted for using equity method
For the fiscal year ended December 31, 2023: ¥- million
For the fiscal year ended December 31, 2022: ¥- million

Note: Headwaters conducted a 2-for-1 common stock split on July 1, 2023. Basic earnings per share and diluted earnings per share have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2022.

(2) Consolidated financial position

As of	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2023	1,294	961	74.1	509.47
December 31, 2022	1,169	875	74.9	467.55

Reference: Equity As of December 31, 2023: ¥958 million As of December 31, 2022: ¥875 million

Note: Headwaters conducted a 2-for-1 common stock split on July 1, 2023. Net assets per share have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2022.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2023	93	(16)	2	897
December 31, 2022	84	(31)	-	818

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
Fiscal year ended December 31, 2022	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00	Millions of yen -	% -	% -
Fiscal year ended December 31, 2023	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending December 31, 2024 (Forecast)	-	0.00	-	0.00	0.00		-	

3. Consolidated forecast for the fiscal year ending December 31, 2024 (January 1, 2024 – December 31, 2024)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full Year	2,928	26.5	226	138.3	229	133.0	156	121.8	83.34

*** Notes**

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

Newly included: - Excluded: -

Note: Although it does not subject to changes in specified subsidiaries, DATA IMPACT JOINT STOCK COMPANY was included in the scope of consolidation from the fiscal year ended December 31, 2023 due to its establishment.

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

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(3) Number of issued shares (common stock)

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

As of December 31, 2023	1,881,298 shares
As of December 31, 2022	1,872,400 shares

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

As of December 31, 2023	26 shares
As of December 31, 2022	- shares

(iii) Average number of shares outstanding during the period

Fiscal year ended December 31, 2023	1,874,892 shares
Fiscal year ended December 31, 2022	1,872,400 shares

Note: Headwaters conducted a 2-for-1 common stock split on July 1, 2023. The total number of issued shares at the end of the period, the number of treasury shares at the end of the period and the average number of shares outstanding during the period have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2022.

[Reference] Overview of non-consolidated financial results

1. Non-consolidated financial results for the fiscal year ended December 31, 2023

(January 1, 2023 – December 31, 2023)

(1) Non-consolidated operating results

(Percentages indicate year-on-year changes.)

Fiscal year ended	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2023	2,183	39.3	77	(5.4)	80	3.7	57	6.0
December 31, 2022	1,567	33.8	81	(10.6)	77	(17.2)	54	99.9

Fiscal year ended	Basic earnings per share	Diluted earnings per share
	Yen	Yen
December 31, 2023	30.55	27.54
December 31, 2022	28.86	26.80

Note: Headwaters conducted a 2-for-1 common stock split on July 1, 2023. Basic earnings per share and diluted earnings per share have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2022.

(2) Non-consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2023	1,201	924	76.9	491.25
December 31, 2022	1,134	854	75.3	456.28

Reference: Equity As of December 31, 2023: ¥924 million As of December 31, 2022: ¥854 million

Note: Headwaters conducted a 2-for-1 common stock split on July 1, 2023. Net assets per share have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2022.

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

Cautionary statement with respect to forward-looking statements

Forecasts and forward-looking statements in these materials are based on assumptions judged to be valid and information available to Headwaters at the time the materials were created. These materials are not promises by Headwaters regarding future performance. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to “1. Overview of Results of Operations (4) Outlook” on page 5 of the attachments regarding preconditions or other related matters for the forecast shown above.

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1. Overview of Results of Operations

(1) Results of Operations

During the fiscal year ended December 31, 2023, there was a recovery of a broad range of industrial activity in Japan with support that included the growth of consumer spending and return of foreign tourists following the end of pandemic restrictions as a result of the downgrade of COVID-19. Although the Japanese economy is recovering, the outlook remains uncertain due to inflation, conflict in the Middle East, the possibility of slowing global economic growth caused by monetary tightening, and other sources of concern.

In the IT industry in which the Headwaters Group operates, the pace of technological progress is rapid because of many innovations, notably artificial intelligence (AI) and the digital transformation (DX). In particular, the emergence of generative AI may lead to new ways to deal with Japan's falling working age population and other social issues. This technology may also create new business models and make enormous contributions to other types of innovations. At companies that use generative AI, there is increasing demand for prompt engineer, which is a technician who can use generative AI to obtain even more accurate and appropriate responses. However, the emergence of generative AI is creating numerous problems. One issue involves copyrights and privacy because there are still inadequate guidelines and rules for this new AI category. In addition to these legal problems, there are ethical issues and problems involving hallucinations, which are outputs that are nonsensical or inaccurate.

In June 2023, the Headwaters Group established DATA IMPACT JOINT STOCK COMPANY. This company strengthened Headwaters' technology development capabilities in the data & AI domain (see note below) by recruiting and training skilled people in Vietnam in the fields of AI and data science. Another significant event in 2023 was the establishment of a team for operating an AI solutions business. Team members are specialists in the user interface/user experience (UI/UX) field, which has been a key strength of Headwaters since the development of a communication robot. In recent years, the strategy of forming alliances has produced a very large number of projects as clients are becoming enterprise. As a result, we have been taking steps to raise sales while raising fees for projects and actively recruiting new employees. Several AI solutions projects are now under way because demand for AI solutions is growing in a wide range of industries rather than in just a few sectors.

Note: Data & AI is a methodology and concept in which data are collected and analyzed to enable the use of AI technology for selecting information, making decisions and solving problems. By using a massive volume of information, data & AI can make predictions, recognize patterns, automate processes, and perform optimization and other tasks. Benefits include higher efficiency and productivity as well as the ability to create new types of value. Data collection, processing and analysis as well as the development of AI models and other activities are key components of data & AI.

The Headwaters Group divides the AI solutions business into the following four service categories.

- AI Integration Services: Consulting and development services for generative AI, machine learning, edge AI, extended reality (XR) and other fields
- DX Services: Low-code development, DX consulting, development of general-purpose IT systems, and other activities
- Product Services: Headwaters services, sales agent operations including cloud utilization fees
- OPS Services: IT system operation and maintenance services

The following section explains the activities of these service categories and their sales in 2023.

AI Integration Services

This category includes edge AI projects using machine learning, image analysis and the IoT as well as the new and growing GPT (generative pre-trained transformer) service lineup for generative AI that started in the second quarter of 2023. One activity is the development of customized services to precisely match each client's requirements. There are also projects for the use of generative AI with knowledge accumulated with services that clients provide. In addition, the Generative AI Project Laboratory conducts hands-on generative AI training and idea hackathons for the purpose of giving client company employees digital technology training and providing internalization support.

In 2023, there was a big contribution to sales from a large edge AI project that started in 2022 and was completed in the third quarter of 2023. As a result, AI Integration Services sales increased 87.7% year-on-year to 950 million yen.

DX Services

Consulting services for the DX at companies and the development of cloud service systems based on Microsoft Azure are the primary activities of the Group's DX service projects. Major services include modernization, which is updates and improvements to old systems by using the latest technologies and methods, and support for internalization of various processes by using Microsoft Power Platform and other low-code tools. The number of projects for the DX of companies and sales of these projects remain strong even after the downgrade of COVID-19.

In 2023, as in the AI Integration Services category, there was a big contribution to sales from a large IT system replacement project that started in 2022 and was completed in the third quarter of 2023. As a result, DX Services sales increased 39.0% to 1,066 million yen.

Product Services

There are two major components of this category. One is a licensing business for SyncLect, Pocket Work Mate and other Headwaters services. The other is a sales agent business involving cloud utilization service fees and the sale of IoT equipment purchased from other companies.

In 2023, the addition of SyncLect Generative AI, a platform for use with generative AI, further enlarged the lineup of services. Many potential new customers, mainly enterprise companies using Microsoft 365, contacted Headwaters about the use of generative AI and there were stable orders from customers directed to Headwaters by Microsoft. However, sales in this category were lower because of the large volume of sales of IoT equipment of other companies in 2022 associated with the large project in the AI Integration Services category. As a result, Product Services sales decreased 6.2% to 108 million yen.

OPS Services

This category consists of operation and maintenance services for projects of the AI Integration Services and DX Services categories. In 2023, there was a reexamination of client relationships resulting in the termination of services that were unprofitable. Sales were higher due to several new OPS projects involving the large volume of sales in the DX Services category. As a result, OPS Services sales increased 2.4% to 189 million yen.

In the AI Integration Services and DX Services categories, a major shift is taking place from the waterfall project management methodology of prior years to the agile methodology. As a result, most projects are based on time-and-materials contracts. Due to this change, Headwaters decided to eliminate the OPS Services category in 2024 because of the difficulty of separating development and maintenance services in projects and because Headwaters is no longer receiving orders for solely services in the OPS category. Consequently, beginning in 2024, Headwaters has three service categories: AI Integration Services, DX Services and Product Services.

As a result, net sales increased 47.0% to 2,315 million yen, operating profit decreased 13.8% year-on-year to 94 million yen, ordinary profit decreased 8.1% to 98 million yen, and profit attributable to owners of parent decreased 5.9% to 70 million yen.

The Headwaters Group will continue to operate in a single business segment, AI Solutions, with the goal of using AI to provide an even larger lineup and higher level of services for clients.

(2) Financial Position

Assets

Total assets at the end of 2023 increased 124 million yen from the end of 2022 to 1,294 million yen.

Current assets increased 123 million yen from the end of 2022 to 1,226 million yen. This was mainly due to increases of 79 million yen in cash and deposits, 26 million yen in accounts receivable - trade and contract assets, 6 million yen in work in process and 8 million yen in prepaid expenses. Non-current assets increased 1 million yen from the end of 2022 to 67 million yen. This was mainly due to an increase of 4 million yen in property, plant and equipment, while there was a decrease of 3 million yen in intangible assets.

Liabilities

Total liabilities increased 38 million yen from the end of 2022 to 332 million yen. This was mainly due to increases of 25 million yen in accrued expenses and 26 million yen in accrued consumption taxes, while there were decreases of 9 million yen in accounts payable - trade and 4 million yen in contract liabilities.

Net assets

Total net assets increased 86 million yen from the end of 2022 to 961 million yen. This was mainly due to an increase of 70 million yen in retained earnings as a result of a profit attributable to owners of parent.

(3) Cash Flows

Cash and cash equivalents (hereafter “net cash”) at the end of 2023 increased 79 million yen from the end of 2022 to 897 million yen.

The components of cash flows at the end of 2023 and their changes are as follows.

Cash flows from operating activities

Net cash provided by operating activities was 93 million yen (compared with net cash provided of 84 million yen in 2022).

The principal factors were profit before income taxes of 98 million yen, depreciation of 15 million yen, and increases of 25 million yen in accrued expenses and 26 million yen in accrued consumption taxes, while there were an increase of 26 million yen in trade receivables and contract assets, and income taxes paid of 35 million yen.

Cash flows from investing activities

Net cash used in investing activities was 16 million yen (compared with net cash used of 31 million yen in 2022). This was mainly due to the payments of 15 million yen for the purchase of property, plant and equipment and 490 thousand yen for the purchase of intangible assets.

Cash flows from financing activities

Net cash provided by financing activities was 2 million yen (no financing activities in 2022).

This was mainly due to proceeds from share issuance to non-controlling shareholders of 2 million yen, while there was purchase of treasury shares of 227 thousand yen.

(4) Outlook

The outlook for the business climate continues to be uncertain because of the high cost of raw materials, conflict in the Middle East, inflation in Japan, the yen's weakness and other reasons. However, investments in IT by companies are likely to continue to increase for several reasons. The performance of companies in many industries is recovering and the DX at companies is expected to continue speeding up in response to Japan's declining working age population and shortage of people with IT skills. Furthermore, companies need to use generative AI, internalize numerous business processes and boost efficiency. As a result, generative AI will be used in a broad range of systems. Based on this outlook, Headwaters expects that AI Integration Services sales will surpass sales in the DX Services category.

In 2024, Headwaters forecasts more sales growth and a big increase in earnings due to the benefits of recruiting and training activities during 2023. There will again be substantial expenditures for recruiting and training activities in 2024, which is positioned as a year for continuing to make large investments. Using AI effectively in a diverse array of market sectors and business formats will improve the efficiency of business operations and attract customers without relying on work done by people. Client companies of Headwaters will need to make AI investments for sustained growth and progress. The DX of companies is not the goal. Headwaters is dedicated to providing comprehensive internalization support that encompasses data utilization and system operations following the implementation of DX measures. By providing these services, including the necessary consultations, development of systems using AI and other support, Headwaters is determined to make every project successful for client companies.

Based on these assumptions, we forecast consolidated net sales of 2,928 million yen, operating profit of 226 million yen, ordinary profit of 229 million yen, and profit attributable to owners of parent of 156 million yen in 2024.

2. Basic Approach for the Selection of Accounting Standards

The Headwaters Group has a policy of preparing its consolidated financial statements using Japanese GAAP for the time being to facilitate comparisons with prior-year performance and the performance of other companies in Japan.

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheet

	(Thousands of yen)	
	Fiscal Year 2022 (As of Dec. 31, 2022)	Fiscal Year 2023 (As of Dec. 31, 2023)
Assets		
Current assets		
Cash and deposits	818,610	897,899
Accounts receivable - trade and contract assets	265,526	292,365
Work in process	10,278	16,493
Prepaid expenses	8,617	16,840
Other	70	2,897
Total current assets	1,103,103	1,226,496
Non-current assets		
Property, plant and equipment		
Buildings	16,015	16,015
Tools, furniture and fixtures	27,689	40,975
Accumulated depreciation	(17,357)	(26,473)
Total property, plant and equipment	26,347	30,517
Intangible assets		
Software	16,881	13,710
Total intangible assets	16,881	13,710
Investments and other assets		
Guarantee deposits	19,434	18,882
Long-term prepaid expenses	379	3
Deferred tax assets	3,095	4,628
Total investments and other assets	22,909	23,515
Total non-current assets	66,138	67,742
Total assets	1,169,242	1,294,238

(Thousands of yen)

	Fiscal Year 2022 (As of Dec. 31, 2022)	Fiscal Year 2023 (As of Dec. 31, 2023)
Liabilities		
Current liabilities		
Accounts payable - trade	154,209	144,705
Accounts payable - other	19,221	16,852
Accrued expenses	48,866	74,775
Accrued consumption taxes	20,893	46,975
Income taxes payable	25,304	22,531
Contract liabilities	9,141	4,141
Deposits received	16,162	22,247
Provision for loss on orders received	-	129
Total current liabilities	293,799	332,358
Non-current liabilities		
Deferred tax liabilities	-	220
Total non-current liabilities	-	220
Total liabilities	293,799	332,579
Net assets		
Shareholders' equity		
Share capital	362,641	369,023
Capital surplus	352,641	359,023
Retained earnings	160,160	230,844
Treasury shares	-	(227)
Total shareholders' equity	875,442	958,663
Accumulated other comprehensive income		
Foreign currency translation adjustment	-	(221)
Total accumulated other comprehensive income	-	(221)
Non-controlling interests	-	3,216
Total net assets	875,442	961,659
Total liabilities and net assets	1,169,242	1,294,238

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income**Consolidated Statement of Income**

(Thousands of yen)

	Fiscal Year 2022 (Jan. 1, 2022 – Dec. 31, 2022)	Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)
Net sales	1,574,596	2,315,088
Cost of sales	929,060	1,459,999
Gross profit	645,535	855,088
Selling, general and administrative expenses	535,515	760,227
Operating profit	110,019	94,861
Non-operating income		
Interest income	7	8
Foreign exchange gains	-	479
Subsidy income	-	1,260
Subsidy income	4,500	573
Consumption taxes differential (after being offset by suspense payments and receipt)	1,395	-
Other	1	1,118
Total non-operating income	5,903	3,439
Non-operating expenses		
Head office relocation expenses	8,907	-
Foreign exchange losses	98	-
Other	-	0
Total non-operating expenses	9,006	0
Ordinary profit	106,916	98,300
Profit before income taxes	106,916	98,300
Income taxes - current	28,584	28,384
Income taxes - deferred	3,188	(1,312)
Total income taxes	31,773	27,071
Profit	75,143	71,229
Profit attributable to non-controlling interests	-	545
Profit attributable to owners of parent	75,143	70,683

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	Fiscal Year 2022 (Jan. 1, 2022 – Dec. 31, 2022)	Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)
Profit	75,143	71,229
Other comprehensive income		
Foreign currency translation adjustment	-	(294)
Total other comprehensive income	-	(294)
Comprehensive income	75,143	70,934
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	75,143	70,462
Comprehensive income attributable to non-controlling interests	-	471

(3) Consolidated Statement of Changes in Equity

Fiscal Year 2022 (Jan. 1, 2022– Dec. 31, 2022)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	362,641	352,641	85,017	-	800,299
Changes during period					
Profit attributable to owners of parent			75,143		75,143
Purchase of treasury shares					
Net changes in items other than shareholders' equity					
Total changes during period	-	-	75,143	-	75,143
Balance at end of period	362,641	352,641	160,160	-	875,442

(Thousands of yen)

	Accumulated other comprehensive income		Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	-	-	-	800,299
Changes during period				
Profit attributable to owners of parent				75,143
Purchase of treasury shares				-
Net changes in items other than shareholders' equity				-
Total changes during period	-	-	-	75,143
Balance at end of period	-	-	-	875,442

Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	362,641	352,641	160,160	-	875,442
Changes during period					
Issuance of new shares	6,382	6,382			12,765
Profit attributable to owners of parent			70,683		70,683
Purchase of treasury shares				(227)	(227)
Net changes in items other than shareholders' equity					
Total changes during period	6,382	6,382	70,683	(227)	83,221
Balance at end of period	369,023	359,023	230,844	(227)	958,663

(Thousands of yen)

	Accumulated other comprehensive income		Non-controlling interests	Total net assets
	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	-	-	-	875,442
Changes during period				
Issuance of new shares				12,765
Profit attributable to owners of parent				70,683
Purchase of treasury shares				(227)
Net changes in items other than shareholders' equity	(221)	(221)	3,216	2,995
Total changes during period	(221)	(221)	3,216	86,216
Balance at end of period	(221)	(221)	3,216	961,659

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	Fiscal Year 2022 (Jan. 1, 2022 – Dec. 31, 2022)	Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)
Cash flows from operating activities		
Profit before income taxes	106,916	98,300
Depreciation	11,406	15,173
Increase (decrease) in provision for loss on orders received	(4,651)	129
Interest income	(7)	(8)
Decrease (increase) in trade receivables and contract assets	(130,287)	(26,839)
Decrease (increase) in inventories	5,298	(6,214)
Increase (decrease) in trade payables	76,898	(9,504)
Increase (decrease) in contract liabilities	7,162	(4,999)
Increase (decrease) in accounts payable - other	3,771	(2,319)
Increase (decrease) in accrued expenses	9,769	25,909
Increase (decrease) in accrued consumption taxes	6,075	26,082
Subsidy income	(4,500)	(573)
Subsidy income	-	(1,260)
Decrease (increase) in other current assets	3,156	4,694
Increase (decrease) in other current liabilities	4,347	6,089
Other, net	921	2,267
Subtotal	96,280	126,926
Interest received	7	8
Subsidies received	4,500	573
Subsidies received	-	1,260
Income taxes paid	(16,519)	(35,481)
Net cash provided by (used in) operating activities	84,268	93,287
Cash flows from investing activities		
Purchase of property, plant and equipment	(27,208)	(15,731)
Purchase of intangible assets	(13,649)	(490)
Proceeds from refund of leasehold and guarantee deposits	9,648	-
Net cash provided by (used in) investing activities	(31,209)	(16,221)
Cash flows from financing activities		
Purchase of treasury shares	-	(227)
Proceeds from share issuance to non-controlling shareholders	-	2,744
Net cash provided by (used in) financing activities	-	2,517
Effect of exchange rate change on cash and cash equivalents	-	(294)
Net increase (decrease) in cash and cash equivalents	53,058	79,288
Cash and cash equivalents at beginning of period	765,552	818,610
Cash and cash equivalents at end of period	818,610	897,899

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Segment Information

Fiscal Year 2022 (Jan. 1, 2022 – Dec. 31, 2022)

This information is omitted because AI Solutions are the only business of the Headwaters Group.

Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)

This information is omitted because AI Solutions are the only business of the Headwaters Group.

Related information

Fiscal Year 2022 (Jan. 1, 2022 – Dec. 31, 2022)

1. Information by product or service

(Thousands of yen)

Services	Sales to external customers
AI Integration Services	506,359
DX Services	767,135
Product Services	115,947
OPS Services	185,153
Total	1,574,596

2. Information by region

(1) Net sales

This information is omitted since sales to external customers in Japan exceeded 90% of net sales in the consolidated statement of income.

(2) Property, plant and equipment

This information is omitted since property, plant and equipment in Japan exceeded 90% of property, plant and equipment in the consolidated balance sheet.

3. Information by major client

This information is omitted because no specific external client accounts for 10% or more of net sales in the consolidated statement of income.

Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)

1. Information by product or service

(Thousands of yen)

Services	Sales to external customers
AI Integration Services	950,620
DX Services	1,066,178
Product Services	108,707
OPS Services	189,581
Total	2,315,088

2. Information by region

(1) Net sales

This information is omitted since sales to external customers in Japan exceeded 90% of net sales in the consolidated statement of income.

(2) Property, plant and equipment

This information is omitted since property, plant and equipment in Japan exceeded 90% of property, plant and equipment in the consolidated balance sheet.

3. Information by major client

(Thousands of yen)	
Client name	Net sales
JAL Information Technology Co., Ltd.	395,918

Information related to impairment losses on non-current assets for each reportable segment

Fiscal Year 2022 (Jan. 1, 2022 – Dec. 31, 2022)

Not applicable.

Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)

Not applicable.

Information related to goodwill amortization and the unamortized balance for each reportable segment

Fiscal Year 2022 (Jan. 1, 2022 – Dec. 31, 2022)

Not applicable.

Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)

Not applicable.

Information related to gain on bargain purchase for each reportable segment

Fiscal Year 2022 (Jan. 1, 2022 – Dec. 31, 2022)

Not applicable.

Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)

Not applicable.

Per Share Information

(Yen)

	Fiscal Year 2022 (Jan. 1, 2022 – Dec. 31, 2022)	Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)
Net assets per share	467.55	509.47
Basic earnings per share	40.13	37.70
Diluted earnings per share	37.26	33.98

Notes: 1. Headwaters conducted a 2-for-1 common stock split on July 1, 2023. Net assets per share, basic earnings per share and diluted earnings per share have been calculated as if this stock split had taken place at the beginning of Fiscal Year 2022.

2. Basis for calculation of basic earnings per share and diluted earnings per share is as follows.

	Fiscal Year 2022 (Jan. 1, 2022 – Dec. 31, 2022)	Fiscal Year 2023 (Jan. 1, 2023 – Dec. 31, 2023)
(1) Basic earnings per share		
[Basis for calculation]		
Profit attributable to owners of parent (thousands of yen)	75,143	70,683
Amount not available to common stock shareholders (thousands of yen)	-	-
Profit attributable to owners of parent applicable to common stock (thousands of yen)	75,143	70,683
Average number of shares of common stock outstanding during the period (shares)	1,872,400	1,874,892
(2) Diluted earnings per share		
[Basis for calculation]		
Adjusted profit attributable to owners of parent (thousands of yen)	-	-
Increase in the number of shares of common stock (shares)	144,534	205,316
Summary of dilutive shares not included in the calculation of diluted earnings per share since there was no dilutive effect	-	-

Note: Headwaters conducted a 2-for-1 common stock split on July 1, 2023. Basic earnings per share and diluted earnings per share have been calculated as if this stock split had taken place at the beginning of Fiscal Year 2022.

Significant Subsequent Events

Not applicable.