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Consolidated Financial Results for the Fiscal Year Ended February 29, 2024 (Japanese GAAP)

April 15, 2024

Company name  MetaReal Corp. Listing Market TSE

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

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Scheduled date of annual general shareholders meeting May 29, 2024 Scheduled date of commencement of dividend payment -

Scheduled date of filing of annual securities report May 30, 2024

Preparation of supplementary materials for financial results: Yes

Holding of financial results briefing: Yes

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended February 29, 2024 (March 1, 2023 to February 29, 2024)

(1) Consolidated Results of Operation

(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	%
FY2/24	4,177	△2.7	746	44.8	803	55.5	534	-
FY2/23	4,292	3.2	515	460.6	516	-	29	-

(Note) Comprehensive income FY2/24 535 millions of yen (-%) FY2/23 29 millions of yen (-%)

	Net income per share	Diluted net income per share	Net income to shareholders' equity	Ordinary income to total assets	Operating income to net assets
	Yen	Yen	%	%	%
FY2/24	49.79	49.13	39.1	18.5	17.9
FY2/23	2.77	2.73	2.8	11.3	12.0

(Reference) Income on equity method investments FY2/24 △16 millions of yen FY2/23 △17 millions of yen

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net asset per share
	Millions of yen	Millions of yen	%	Yen
FY2/24	4,458	1,681	36.8	152.33
FY2/23	4,220	1,133	25.9	102.19

(Reference) Shareholders' equity FY2/24 1,640 millions of yen FY2/23 1,092 millions of yen

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalent at the end of the year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2/24	930	△122	△271	3,078
FY2/23	507	△155	△217	2,542

2. Dividend payment

	Annual dividend per share					Total amount of dividends (Total)	Payout ratio (Consolidated)	Dividend on equity (Consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2/23	-	0.00	-	0.00	0.00	-	-	-
FY2/24	-	0.00	-	0.00	0.00	-	-	-
FY2/25 (Forecast)	-	0.00	-	0.00	0.00	-	-	-

3. Consolidated Business Forecasts for the Fiscal Year Ending February 28, 2025 (March 1, 2024 to February 28, 2025)

(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	4,946	18.4	412	△44.8	-	-	-	-	-

(Note) Regarding the consolidated business forecasts for [Ordinary income], [Net income attributable to owners of the parent] and [Net income per share] for the fiscal year ending February 28, 2025, while uncertainty in financial plans such as fund-raising in terms of both liabilities and equity associated with Metareal AI of new businesses has been mitigated, there are items that are highly difficult to forecast such as non-operating income (loss) and extraordinary income (loss), which are not disclosed at this time. We plan to disclose specific figures promptly once we are able to make more accurate projections.

◆ Consolidated Business Forecasts by Segment

(Percentages indicate year-on-year changes.)

	Net sales		Operating income	
	Millions of yen	%	Millions of yen	%
Full year				
AI business	3,600	17.8	519	△44.5
HT business	1,146	2.6	210	44.7
Metaverse business	200	-	△200	-
Other corporate expenses	-	-	△118	-

(Note) Since the second quarter of the fiscal year ended February 28, 2024, the name of the reportable segment of the [MT business] has changed to the [AI business].

Previously, the segment centered on AI translation was called the [MT business]. However, as for our future corporate strategy and current situation, we are looking toward broader AI services, including [generative AI], and we have changed the name to the [AI business] to represent the actual situation more appropriately.

This is only a name change, and there are no revisions to the numerical classification. [Metareal AI] which had been included in the MT business until the first quarter of the consolidated fiscal year under review is also included in the [AI business].

※ Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

Newly consolidated: - Excluded: Travel DX Corporation

(2) 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

(3) 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

FY2/24	10,768,460 shares	FY2/23	10,688,460 shares
FY2/24	490 shares	FY2/23	468 shares
FY2/24	10,728,123 shares	FY2/23	10,683,847 shares

(Reference) Summary of Non-consolidated Results of Operation

1. Non-consolidated Financial Results for the Fiscal Year Ended February 29, 2024 (March 1, 2023-February 29, 2024)

(1) Non-Consolidated Results of Operation

(Percentages indicate year-on-year changes.)

	Operating revenue		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2/24	664	△0.3	267	△18.1	99	-	159	-
FY2/23	666	△60.1	326	27.6	△6	-	△245	-

	Net income per share	Diluted net income per share
	Yen	Yen
FY2/24	14.87	14.67
FY2/23	△23.01	-

(Note) The main reason for achieving profitability in ordinary income is the reduction of [Provision for doubtful accounts of subsidiaries and associates], and the main reason for achieving profitability in net income is that loss on valuation of investment securities occurred in the fiscal year ended February 28, 2023, but did not occur in the fiscal year ended February 29, 2024.

(2) Non-consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net asset per share
	Millions of yen	Millions of yen	%	Yen
FY2/24	2,336	478	18.7	40.66
FY2/23	2,412	305	11.0	24.73

(Reference) Shareholders' equity FY2/24 437 millions of yen FY2/23 264 millions of yen

* This consolidated financial report is not subject to audit 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 regarding future performance in this material 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 does not make promises about the achievements. Actual results may differ significantly from the forecasts due to various factors. Please refer to "1. Overview of Results of Operation, (2) 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.

We also plan to hold a briefing for institutional investors, analysts and long-term individual shareholders on Thursday, April 18, 2024.

Information on this briefing session is provided on our website.

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1. Results of Operations and Financial Position

(1) Overview of Results of Operation and Financial Position

① Overview of Results of Operation for the Fiscal Year under Review

During the fiscal year under review, orders received, net sales, and operating income in the AI business hit record highs. In the HT business segment, income compared to the same period of the previous fiscal year decreased, but losses in the Metaverse business decreased.

As a result, our group posted net sales of 4,177,759 thousand yen (down 2.7% year on year), operating income of 746,324 thousand yen (up 44.8% year on year), ordinary income of 803,788 thousand yen (up 55.5% year on year), and profit attributable to owners of parent of 534,135 thousand yen (profit attributable to owners of parent of 29,631 thousand yen in the previous fiscal year).

Businesses other than the Metaverse business recorded total sales of 4,174,864 thousand yen (down 2.5% year on year) and operating income of 975,508 thousand yen (up 4.1% year on year).

The performance of each business segment is as follows:

Since the fiscal year under review, the name of the reportable segment of the [MT business] has changed to the [AI business]. This change had no impact on segment information.

In addition, from the current fiscal year, in order to more appropriately evaluate the results of operations by reportable segment, we have changed the method of measuring income or loss of business segments. Comparison and analysis for the current fiscal year are based on the new measurement method.

① AI business

As for the AI business, the number of orders received was steady, at 3,192,850 thousand yen (up 13.1% year on year). Sales were 3,057,288 thousand yen (up 5.0% year on year) due to the impact of consigned projects etc., and segment income was 935,971 thousand yen (up 28.7% year on year), including the impact of upfront investment on the new [Metareal AI] business. As for the [Metareal AI] project, which was developed and provided in this fiscal year as a growth measure in the short to medium term, we aim to contribute to business results at an early stage. We have commenced various proposals and sales using generative AI, mainly for large-scale customers, resulting in large-scale orders.

② HT business

As for the HT business, sales were 1,117,576 thousand yen (down 18.4% year on year), and segment income was 145,555 thousand yen (down 45.9% 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 2,894 thousand yen (down 71.8% year on year), and segment loss was 229,184 thousand yen (segment loss of 421,509 thousand yen in the previous fiscal year).

② Overview of Financial Position for the Fiscal Year under Review

(Assets)

Total assets at the end of the fiscal year under review increased by 237,332 thousand yen from the end of the previous fiscal year to 4,458,042 thousand yen.

Current assets increased by 554,865 thousand yen from the end of the previous fiscal year to 3,528,142 thousand yen. This was due mainly to an increase of 553,489 thousand yen in cash and deposits, a decrease of 70,186 thousand yen in notes, accounts receivable and contract assets, and a decrease of 35,346 thousand yen in allowance for doubtful accounts.

Non-current assets decreased by 317,533 thousand yen from the end of the previous fiscal year to 929,899 thousand yen. This was mainly due to a decrease of 56,939 thousand yen in property, plant and equipment, a decrease of 238,692 thousand yen in intangible assets, and a decrease of 21,901 thousand yen in investments and other assets.

(Liabilities)

Liabilities at the end of the fiscal year under review decreased by 310,819 thousand yen from the end of the previous fiscal year to 2,776,571 thousand yen.

Current liabilities increased by 16,459 thousand yen from the end of the previous fiscal year to 2,005,951 thousand yen. This was due mainly to an increase of 60,041 thousand yen in income taxes payable, a decrease of 45,376 thousand yen in advances received, and an increase of 30,000 thousand yen in the current portion of corporate bonds payable.

Non-current liabilities decreased by 327,279 thousand yen from the end of the previous fiscal year to 770,619 thousand yen. This was mainly due to a decrease of 270,980 thousand yen in long-term debt, a decrease of 29,000 thousand yen in bonds, and a decrease of 27,328 thousand yen in lease obligations.

(Net assets)

Net assets at the end of the fiscal year under review increased by 548,152 thousand yen from the end of the previous fiscal year to 1,681,470 thousand yen.

This was mainly due to an increase of 534,135 thousand yen in retained earnings as a result of recording profit attributable to owners of the parent.

③ Overview of Cash Flows for the Period under Review

Net cash provided by operating activities was 930,880 thousand yen, net cash used in investing activities was 122,012 thousand yen, and net cash used in financing activities was 271,869 thousand yen. As a result, cash and cash equivalents (hereinafter "cash") at the end of the fiscal year under review increased by 536,436 thousand yen from the end of the previous fiscal year to 3,078,464 thousand yen.

(Cash flows from operating activities)

Net cash provided by operating activities was 930,880 thousand yen. Cash inflow was mainly attributable to income before income taxes of 803,072 thousand yen, depreciation and amortization of 356,497 thousand yen, and a decrease in notes, accounts receivable and contract assets of 134,898 thousand yen. Cash outflow was mainly attributable to income taxes paid of 308,726 thousand yen and a decrease in allowance for doubtful accounts of 110,058 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities was 122,012 thousand yen. Cash inflow was mainly attributable to proceeds from liquidation of investment securities of 2,812 thousand yen and recovery of loans receivable of 2,144 thousand yen. Cash outflow was mainly attributable to purchase of intangible assets of 65,556 thousand yen, purchase of investment securities of 55,128 thousand yen, and purchase of property, plant and equipment of 6,718 thousand yen.

(Cash flows from financing activities)

Net cash used in financing activities was 271,869 thousand yen. Cash inflow was mainly attributable to proceeds from long-term debt of 150,000 thousand yen and proceeds from issuance of bonds of 146,911 thousand yen. Cash outflow was mainly attributable to repayments of long-term debt of 405,980 thousand yen and redemption of bonds of 149,000 thousand yen.

(2) 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 AI business including [Metareal AI] projects

We will continue to aim for stable growth in the AI business, which provides services such as [T-400] [T-3MT] for AI technical document translation and [Onyaku] for AI speech translation.

The [Metareal AI] project, which we launched this fiscal year as a service provider, will expand the target market from translation to document generation in general by utilizing various generative AI technologies, including GPTs, in the field of technical documents, which is our strength. We will contribute to customer growth by providing mainly specialized document AI specializing in problem-solving specific to individual industries, government agencies, and individual companies, and by providing overwhelming work efficiency and support for the creation of new services.

We aim to grow by 20% through the AI business, including the [Metareal AI] project.

2. Basic Approach to Selection of Accounting Standards

In light of the comparability of consolidated financial statements between periods and between companies, our group intends to continue to prepare consolidated financial statements under Japanese GAAP.

However, our policy is to appropriately consider the application of the International Financial Reporting Standards (IFRS) as necessary in light of various circumstances and business description in Japan and overseas.

3. Consolidated Financial Statements and Major Notes

(1) Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (February 28, 2023)	Current fiscal year (February 29, 2024)
Assets		
Current assets		
Cash and deposits	2,523,695	3,077,184
Notes, accounts receivable and contract assets	280,313	210,127
Inventories	16,075	18,100
Other	195,242	229,434
Allowance for doubtful accounts	△42,051	△6,705
Total current assets	2,973,276	3,528,142
Non-current assets		
Property, plant and equipment		
Building and structure	18,896	22,027
Tools, furniture and fixtures	685,402	654,447
Leased assets	86,968	86,968
Accumulated depreciation	△673,331	△702,446
Total property, plant and equipment	117,936	60,997
Intangible assets		
Goodwill	6,709	-
Software	647,051	419,465
Software in progress	572	2,837
Leased assets	16,374	9,638
Other	378	452
Total intangible assets	671,086	432,393
Investments and other assets		
Investment securities	86,071	142,542
Shares of subsidiaries and associates	23,779	9,601
Long-term loan	10,562	187
Deferred tax asset	337,478	279,256
Other	108,497	38,187
Allowance for doubtful accounts	△107,979	△33,266
Total investments and other assets	458,409	436,508
Total non-current assets	1,247,433	929,899
Total assets	4,220,709	4,458,042
Liabilities		
Current liabilities		
Notes and accounts payable-trade	74,270	65,323
Short-term borrowings	100,000	100,000
Current portion of long-term loans payable	385,980	400,980
Current portion of corporate bonds	134,000	164,000
Accounts payable-other	96,646	117,587
Lease obligations	26,806	27,328
Income taxes payable	28,913	88,954
Provision for bonuses	44,860	45,632
Advances received	859,439	814,062
Other	238,575	182,082
Total current liabilities	1,989,491	2,005,951
Non-current liabilities		
Corporate bonds	388,000	359,000
Long-term debt	669,550	398,570
Lease obligations	40,349	13,020
Deferred tax liabilities	-	28
Total non-current liabilities	1,097,899	770,619
Total liabilities	3,087,391	2,776,571

(Thousands of yen)

	Previous fiscal year (February 28, 2023)	Current fiscal year (February 29, 2024)
Net assets		
Shareholders' equity		
Common stock	786,021	792,541
Capital surplus	1,759,968	1,766,488
Retained earnings	△1,452,866	△918,731
Treasury stock	△951	△986
Total shareholders' equity	1,092,171	1,639,312
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-	1,011
Total accumulated other comprehensive income	-	1,011
Share subscription rights	41,146	41,146
Total net assets	1,133,318	1,681,470
Total liabilities and net assets	4,220,709	4,458,042

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
(Consolidated Statements of Income)

(Thousands of yen)

	Previous fiscal year (From March 1, 2022 to February 28, 2023)	Current fiscal year (From March 1, 2023 to February 29, 2024)
Net sales	4,292,042	4,177,759
Cost of sales	1,506,580	1,357,814
Gross profit	2,785,461	2,819,944
Selling, general and administrative expenses		
Remuneration for directors	160,314	225,706
Salaries, allowances and bonuses	787,237	741,561
Research and development expenses	264,696	123,759
Advertising expenses	210,390	141,135
Provision for doubtful receivables	152	109
Provision for bonuses	8,964	1,929
Retirement benefit expenses	7,221	6,968
Other	831,060	832,448
Total selling, general and administrative expenses	2,270,037	2,073,620
Operating income	515,424	746,324
Non-operating income		
Commissions received	-	11,007
Interest income	63	63
Subsidy income	15,252	3,770
Reversal of allowance for doubtful accounts	27,295	75,044
Other	8,302	2,903
Total non-operating income	50,913	92,788
Non-operating expenses		
Interest expenses	12,896	10,175
Commissions paid	1,895	2,817
Share of loss of investments accounted for using equity method	17,016	16,323
Bond issuance expenses	6,624	3,088
Provision for doubtful receivables	10,000	-
Other	1,101	2,920
Total non-operating expenses	49,534	35,324
Ordinary income	516,803	803,788
Special income		
Income on sales of non-current assets	-	831
Gain on liquidation of investment securities	-	2,812
Total special income	-	3,644
Special loss		
Loss on sales and retirement of noncurrent assets	5,880	32
Impairment loss	68,455	4,327
Loss on valuation of investment securities	233,763	-
Total special loss	308,099	4,359
Income before income taxes	208,703	803,072
Income taxes – current	135,376	211,017
Income taxes - deferred	43,695	57,919
Total income taxes	179,071	268,937
Net income	29,631	534,135
Net income attributable to owners of parent	29,631	534,135

(Consolidated Statements of Comprehensive Income)

(Thousands of yen)

	Previous fiscal year (From March 1, 2022 to February 28, 2023)	Current fiscal year (From March 1, 2023 to February 29, 2024)
Net income	29,631	534,135
Other comprehensive income		
Valuation difference on available-for-sale securities	-	1,011
Total other comprehensive income	-	1,011
Comprehensive income	29,631	535,147
Comprehensive income (loss) attributable to:		
Owners of the parent company	29,631	535,147
Non-controlling interests	-	-

(3) Consolidated Statements of Changes in Shareholders' Equity
 Previous fiscal year (From March 1, 2022 to February 28, 2023)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Opening balance	783,511	1,757,458	△1,482,498	△951	1,057,519
Change during the year					
Issuance of shares (exercise of share subscription rights)	2,510	2,510			5,020
Net income attributable to owners of parent			29,631		29,631
Purchase of treasury stock					-
Net change in items other than shareholders' equity					-
Total changes of items during the year	2,510	2,510	29,631	-	34,652
Ending balance	786,021	1,759,968	△1,452,866	△951	1,092,171

	Accumulated other comprehensive income		Share subscription rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Opening balance	-	-	41,146	1,098,666
Change during the year				
Issuance of shares (exercise of share subscription rights)				5,020
Net income attributable to owners of parent				29,631
Purchase of treasury stock				-
Net change in items other than shareholders' equity	-	-		-
Total changes of items during the year	-	-	-	34,652
Ending balance	-	-	41,146	1,133,318

Current fiscal year (From March 1, 2023 to February 29, 2024)

(Thousands of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Opening balance	786,021	1,759,968	△1,452,866	△951	1,092,171
Change during the year					
Issuance of shares (exercise of share subscription rights)	6,520	6,520			13,040
Net income attributable to owners of parent			534,135		534,135
Purchase of treasury stock				△34	△34
Net change in items other than shareholders' equity					-
Total changes of items during the year	6,520	6,520	534,135	△34	547,140
Ending balance	792,541	1,766,488	△918,731	△986	1,639,312

	Accumulated other comprehensive income		Share subscription rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Opening balance	-	-	41,146	1,133,318
Change during the year				
Issuance of shares (exercise of share subscription rights)				13,040
Net income attributable to owners of parent				534,135
Purchase of treasury stock				△34
Net change in items other than shareholders' equity	1,011	1,011		1,011
Total changes of items during the year	1,011	1,011	-	548,152
Ending balance	1,011	1,011	41,146	1,681,470

(4) Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous fiscal year (From March 1, 2022 to February 28, 2023)	Current fiscal year (From March 1, 2023 to February 29, 2024)
Cash flows from operating activities		
Income before income taxes	208,703	803,072
Depreciation	475,735	356,497
Amortization of goodwill	7,786	6,709
Impairment loss	68,455	4,327
Increase or decrease in allowance for doubtful accounts (Δ indicates decrease)	Δ 34,006	Δ 110,058
Increase or decrease in accrued bonuses (Δ indicates decrease)	Δ 3,498	771
Increase in provision for surcharges (Δ indicates decrease)	Δ 283,090	-
Interest and dividend income	Δ 63	Δ 63
Loss on valuation of investment securities (Δ indicates gain)	233,763	-
Loss or gain on equity method investments (Δ indicates gain)	17,016	16,323
Loss on sales and retirement of noncurrent assets (Δ indicates gain)	5,880	Δ 799
Subsidy income	Δ 15,252	Δ 3,770
Interest expenses	12,896	10,175
Bond issuance expenses	6,624	3,088
Increase or decrease in advances received (Δ indicates decrease)	Δ 146,886	Δ 45,376
Increase or decrease in notes and accounts receivable and contract assets (Δ increased)	173,122	134,898
Increase or decrease in inventories (Δ indicates increase)	2,392	Δ 2,024
Increase or decrease in trade payables (Δ indicates decrease)	Δ 19,874	Δ 8,946
Other	Δ 4,952	22,217
Sub-total	704,752	1,187,042
Interest and dividends received	63	63
Subsidy income	15,252	3,770
Interest paid	Δ 12,896	Δ 10,175
Income taxes paid	Δ 215,866	Δ 308,726
Income taxes refund	16,027	58,905
Cash flows from operating activities	507,333	930,880
Cash flows from investing activities		
Payments for property, plant and equipment	Δ 6,078	Δ 6,718
Proceeds from sale of property, plant and equipment	757	831
Payments for intangible assets	Δ 139,623	Δ 65,556
Purchase of investment securities	-	Δ 55,128
Proceeds from liquidation of investment securities	-	2,812
Proceeds from liquidation of subsidiaries and associates	-	802
Payment for loans receivable	Δ 12,450	Δ 1,200
Proceeds from loans receivable	1,659	2,144
Cash flows from investing activities	Δ155,735	Δ122,012

(Thousands of yen)

	Previous fiscal year (From March 1, 2022 to February 28, 2023)	Current fiscal year (From March 1, 2023 to February 29, 2024)
Cash flows from financing activities		
Proceeds from issuance of bonds	293,375	146,911
Redemption of bonds	△104,000	△149,000
Proceeds from long-term debt	-	150,000
Repayment of long-term debt	△385,980	△405,980
Repayment of lease obligations	△26,293	△26,806
Proceeds from issuance of common stock upon exercise of share subscription rights	5,020	13,040
Purchase of treasury stock	-	△34
Cash flows from financing activities	△217,877	△271,869
Effect of exchange rate change on cash and cash equivalents	△1,836	△561
Net increase or decrease in cash and cash equivalents (△ indicates decrease)	131,883	536,436
Cash and cash equivalents at beginning of the year	2,410,143	2,542,027
Cash and cash equivalents at end of the year	2,542,027	3,078,464

(5) Notes on Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Changes in Scope of Consolidation or Scope of Equity Method Application)

(Changes in Scope of Consolidation)

Travel DX Corporation, our consolidated subsidiary, has been excluded from the scope of consolidation because it was extinguished through an absorption-type merger in which MATRIX Corporation, also a consolidated subsidiary, is the surviving company.

(Changes in Scope of Equity Method Application)

VR Music Inc., which had been our equity method investee, has been liquidated and therefore has been excluded from the scope of application of the equity method.

(Change of Presentation Methods)

(Consolidated Balance Sheets)

[Contract assets] that had been included in [Other] under [Current assets] during the previous fiscal year are included in [Notes receivable, accounts receivable and contract assets] under [Current assets] from the current fiscal year due to their materiality. Accordingly, the name of the line item presented under [Notes and accounts receivable] under [Current assets] has been changed to [Notes receivable, accounts receivable and contract assets]. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, in the [Current assets] section, [Notes and accounts receivable] of 278,738 thousand yen and [Other] of 196,817 thousand yen have been reclassified as [Notes receivable, accounts receivable and contract assets] of 280,313 thousand yen and [Other] of 195,242 thousand yen.

(Consolidated Statements of Cash Flows)

[Increase or decrease in contract assets (increase in Δ)] which was included in [Other] under [Cash flows from operating activities] in the previous fiscal year is included in [Increase or decrease in trade receivables and contract assets (increase in Δ)] from the current fiscal year due to its materiality. Accordingly, the name of the item that had previously been presented as [Increase or decrease in notes and accounts receivable-trade (increase in Δ)] under [Cash flows from operating activities] is changed to [Increase or decrease in notes and accounts receivable-trade and contract assets (increase in Δ)]. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, in the [Cash flows from operating activities] section, [Increase or decrease in notes and accounts receivable-trade (increase in Δ)] of 174,698 thousand yen and [Other] of Δ 6,528 thousand yen have been reclassified as [Increase or decrease in notes and accounts receivable-trade and contract assets (increase in Δ)] of 173,122 thousand yen and [Other] of Δ 4,952 thousand yen.

(Additional Information)

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

We and some of our domestic consolidated subsidiaries have shifted from the consolidated tax payment system to the group-wide system since the fiscal year under review. Accordingly, accounting and disclosure of income taxes, local income taxes, and tax-effect accounting are conducted in accordance with the [Treatment of Accounting and Disclosure for Application of the Group Comprehensive Accounting System] (Practical Issues Task Force No. 42, August 12, 2021. Hereinafter [Practical Issues Task Force No. 42]). In addition, in accordance with Paragraph 32(1) of the 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 Consolidated Statements of Income)

(1) Revenue from contracts with customers

Revenue from contracts with customers and other revenues are not presented separately. The amount of revenue arising from contracts with customers is as described under [(Segment Information)].

(2) Impairment loss

Previous fiscal year (From March 1, 2022 to February 28, 2023)

1. Amount of impairment loss

The Group recorded impairment loss on the following assets during the period under review.

Location	Application	Type	Amount (thousands of yen)
Chioda-ku, Tokyo	Business assets	Tools, furniture and fixtures	4,587
Chioda-ku, Tokyo	Business assets	Software in progress	1,904
Chioda-ku, Tokyo	Business assets	Software	61,963
Total			68,455

2. Method of grouping assets

Business assets are grouped based on the smallest cash-flow-generating unit to be largely independent of the cash flows of other assets or asset groups.

3. Method of calculating the recoverable amount

The recoverable amount of business assets is measured by value in use, and is calculated by discounting future cash flows from operating activities using the cost of capital (19.1%) that also takes into consideration the equity risk premium. Assets with negative future cash flows from operating activities are valued at zero.

4. Background to recording of impairment loss

As a result of reassessment of the profitability of existing development projects and related businesses and consolidation of development and operating resources, book value was written down to the recoverable amount and the resulting decrease was recorded as an impairment loss.

Current fiscal year (From March 1, 2023 to February 29, 2024)

This information is omitted because it is not material.

(3) Loss on valuation of investment securities

Previous fiscal year (From March 1, 2022 to February 28, 2023)

We have determined that the real value of the following holdings of investment securities (stocks with no market prices etc.) has declined significantly. Accordingly, we have recorded the difference in valuation under extraordinary losses, as losses on valuation of investment securities.

(Thousands of yen)

Investment securities	Loss on valuation of investment securities
Synamon Inc.	7,525
VoiceApp, Inc.	60,116
alt Inc.	166,122

Current fiscal year (From March 1, 2023 to February 29, 2024)

Not applicable.

(Business Combinations)

(Transactions Under Common Control)

Merger of consolidated subsidiaries

1. Summary of transactions

(1) Name and business of the companies subject to business combination

① Surviving company

Company name: MATRIX Corporation

Business description: VR business

② Absorbed company

Company name: Travel DX Corporation

Business description: Virtual travel business

(2) Effective date of the business combination

December 1, 2023

(3) Legal form of the business combination

Absorption-type merger in which MATRIX Corporation is the surviving company and Travel DX Corporation is the absorbed company

(4) Company name following the business combination

MATRIX Corporation

(5) Other matters related to overview of the transaction

Aim of the business combination is to further improve management efficiency.

2. Overview of accounting treatment

Accounting has been treated as transactions under common control, based on [Accounting Standard for Business Combinations] (ASBJ Statement No. 21, January 16, 2019) and [Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures] (ASBJ Guidance No. 10, January 16, 2019).

(Segment Information)

[Segment Information]

1. Overview of Reportable Segments

The target segments of the Company are components of the Company for which separate financial information is available and which are regularly reviewed by the Board of Directors in order to determine the allocation of management resources and evaluate business performance. Our business is centered on the machine translation business and the Metaverse business, and we operate the translation outsourcing business as a peripheral business.

(1) AI business

The AI (Artificial Intelligence) business provides AI machine-translation services and generative AI services based on the corporate missions of [liberate Japan from linguistic impairment] and [liberate humanity from the shackles of manual labor].

(2) HT business

The HT (Human Translation) business provides outsourced services, such as traditional human translation, interpretation, and language training.

(3) Metaverse business

The Metaverse business provides various services. By integrating cutting-edge technologies such as AI, AR (Augmented Reality: Augmented Reality), VR (Virtual Reality: Virtual Reality), 5G/6G/G7 (High-speed, Multiple Connections), 4K/8K/12K (Super-Resolution), video distribution solutions, robotics, and HA (Human Augmentation: Human Extension), we aim to realize a world in which people around the world can interact, work, and enjoy their lives [with anyone anytime, anywhere].

(Change of Segment Name)

Since the fiscal year under review, the name of the reportable segment that had been the [MT business] has changed to the [AI business]. This change was made to the segment name only. There was no impact on segment information. Segment information for the previous fiscal year is also presented under the new name.

2. Method of calculating net sales, income (loss), assets and other items by reportable segment

The accounting methods used for the reportable segments are based on the accounting policies adopted for the preparation of the consolidated financial statements.

Segment income is based on operating income. Intersegment sales and transfers are based on prevailing market prices.

(Changes in Measurement Methods of Income or Loss of Business Segments)

In order to more appropriately evaluate the results of operations of each reportable segment, we have decided to revise the cost allocation within the headquarters function in light of the increasing importance of company-wide business management along with changes in the scope of our business in recent years and other factors. As a result, the effect of cost reduction activities undertaken by the administrative division at headquarters was included in adjustments to segment income. However, from the fiscal year under review, the allocation method has been changed in light of the ratio of services provided to each company.

Segment information for the previous fiscal year is prepared based on the new measurement method for reportable segment income or loss.

3. Information on net sales, income (loss), assets and other items by reportable segment and breakdown of income
Previous fiscal year (From March 1, 2022 to February 28, 2023)

(Thousands of yen)

	Reportable Segments				Adjustments (Notes 1, 3, 4)	Amounts on the consolidated financial statements (Note 2)
	AI business	HT business	Metaverse business	Total		
By type of goods or services						
Machine translation	2,820,840	32,742	-	2,853,583	-	2,853,583
Human translation	35,922	1,337,262	-	1,373,184	-	1,373,184
Metaverse	-	-	10,256	10,256	-	10,256
Consigned development	55,018	-	-	55,018	-	55,018
Revenue from contracts with customers	2,911,781	1,370,005	10,256	4,292,042	-	4,292,042
Revenue recognition by period						
Goods or services that are transferred at one time	263,425	1,233,162	7,076	1,503,663	-	1,503,663
Goods or services that are transferred over a period of time	2,648,355	136,842	3,180	2,788,378	-	2,788,378
Revenue from contracts with customers	2,911,781	1,370,005	10,256	4,292,042	-	4,292,042
Net sales to unaffiliated customers	2,911,781	1,370,005	10,256	4,292,042	-	4,292,042
Intersegment sales or transfer	6,092	45,620	-	51,712	△51,712	-
Total	2,917,873	1,415,625	10,256	4,343,755	△51,712	4,292,042
Segment income or loss (△)	727,228	268,941	△421,509	574,660	△59,236	515,424
Segment assets	2,573,572	829,515	430,825	3,833,914	386,795	4,220,709
Other						
Depreciation	439,212	21,709	2,923	463,845	11,889	475,735
Amortization of goodwill	-	7,786	-	7,786	-	7,786
Impairment loss	72,607	-	-	72,607	△4,152	68,455
Increase in property, plant and equipment, and intangible assets	138,726	3,613	3,056	145,396	306	145,702

(Note) 1. Adjustments to segment income or loss (△) of △59,236 thousand yen include an elimination of intersegment transactions of 251,391 thousand yen and a corporate expenses not attributable to reportable segments of △310,627 thousand yen. 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 consolidated statements of income.
3. Adjustments to segment assets of 386,795 thousand yen are corporate assets not attributable to reportable segments. They mainly consist of assets related to the parent company and deferred tax assets.
4. The depreciation and amortization adjustment of 11,889 thousand yen included in adjustments to other items represents depreciation and amortization related to parent-company assets. Adjustments to impairment loss of △4,152 thousand yen represent adjustments to unrealized gains and losses. Adjustments to the increase in property, plant and equipment and intangible assets of 306 thousand yen represent increases related to parent-company assets.

Current fiscal year (From March 1, 2023 to February 29, 2024)

(Thousands of yen)

	Reportable Segments				Adjustments (Notes 1, 3, 4)	Amounts on the consolidated financial statements (Note 2)
	AI business (Note 5)	HT business	Metaverse business	Total		
By type of goods or services						
Machine translation	2,813,002	30,015	-	2,843,018	-	2,843,018
Human translation	48,196	1,087,560	-	1,135,756	-	1,135,756
Metaverse	-	-	2,894	2,894	-	2,894
Consigned development	196,089	-	-	196,089	-	196,089
Revenue from contracts with customers	3,057,288	1,117,576	2,894	4,177,759	-	4,177,759
Revenue recognition by period						
Goods or services that are transferred at one time	313,843	980,059	1,192	1,295,095	-	1,295,095
Goods or services that are transferred over a period of time	2,743,444	137,517	1,702	2,882,663	-	2,882,663
Revenue from contracts with customers	3,057,288	1,117,576	2,894	4,177,759	-	4,177,759
Net sales to unaffiliated customers	3,057,288	1,117,576	2,894	4,177,759	-	4,177,759
Intersegment sales or transfer	6,129	42,303	13,405	61,839	△61,839	-
Total	3,063,417	1,159,879	16,300	4,239,598	△61,839	4,177,759
Segment income or loss (△)	935,971	145,555	△229,184	852,342	△106,017	746,324
Segment assets	2,852,864	718,257	169,595	3,740,716	717,325	4,458,042
Other						
Depreciation	356,792	18,036	-	374,829	△18,331	356,497
Amortization of goodwill	-	6,709	-	6,709	-	6,709
Impairment loss	-	-	4,327	4,327	-	4,327
Increase in property, plant and equipment, and intangible assets	62,743	8,030	1,500	72,275	-	72,275

- (Note) 1. Adjustments to segment income or loss (△) of △106,017 thousand yen include an elimination of intersegment transactions of 244,176 thousand yen and a corporate expenses not attributable to reportable segments of △350,194 thousand yen. 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 consolidated statements of income.
3. Adjustments to segment assets of 717,325 thousand yen are corporate assets not attributable to reportable segments. They mainly consist of assets related to the parent company and deferred tax assets.
4. The depreciation and amortization adjustment of △18,331 thousand yen included in adjustments to other items is an adjustment to depreciation and amortization related to parent-company assets and unrealized gains and losses.
5. Sales related to generative AI are included in [Machine translation] for platform-type sales, and sales related to consigned development are included in [Consigned development].

[Information on impairment loss on noncurrent assets by reportable segment]

Previous fiscal year (From March 1, 2022 to February 28, 2023)

Impairment loss on noncurrent assets of 72,607 thousand yen has been recorded for the AI business. In addition, the Company has recorded △ 4,152 thousand yen as an adjustment to unrealized gains and losses.

Current fiscal year (From March 1, 2023 to February 29, 2024)

Impairment loss on noncurrent assets of 4,327 thousand yen has been recorded for the Metaverse business.

(Per share Information)

	Previous fiscal year (From March 1, 2022 to February 28, 2023)	Current fiscal year (From March 1, 2023 to February 29, 2024)
Net assets per share	102.19 yen	152.33 yen
Net income per share	2.77 yen	49.79 yen
Diluted net income per share	2.73 yen	49.13 yen

(Note) The basis for calculating net income per share and diluted net income per share is as follows.

	Previous fiscal year (From March 1, 2022 to February 28, 2023)	Current fiscal year (From March 1, 2023 to February 29, 2024)
Net income per share		
Net income attributable to owners of parent (thousands of yen)	29,631	534,135
Amount not attributable to common shareholders (thousands of yen)	-	-
Net income attributable to owners of parent related to common stock (thousands of yen)	29,631	534,135
Average number of shares of common stock outstanding during the period (shares)	10,683,847	10,728,123
Diluted net income per share		
Adjustment to net income attributable to owners of parent (thousands of yen)	-	-
Increase in number of common shares (shares)	175,353	143,742
(Share subscription rights (shares))	(175,353)	(143,742)
Outline of potential shares that had not been included in the calculation of diluted net income per share because they had no dilutive effect	14th share subscription rights by resolution of the Board of Directors at the meeting held on July 14, 2020 Number of share subscription rights: 12,188 rights (1,218,800 shares of common stock)	14th share subscription rights by resolution of the Board of Directors at the meeting held on July 14, 2020 Number of share subscription rights: 12,188 rights (1,218,800 shares of common stock)

(Significant Subsequent Events)

Not applicable.