

Results of Operations for FY2024

Headwaters Co., Ltd.

February 27, 2025

Securities code: 4011

Table of Contents

01

The History of Headwaters

- Past
- Present
- Future

02

Highlights of FY2024

- Accomplishments
- Improvements

03

Consolidated Forecasts for FY2025

04

Challenges and Strategies

Appendix

01 — The History of Headwaters

- Past
- Present
- Future



About Us (As of the end of December 2024)

Name	Headwaters Co., Ltd.
Established	November 2005
Representative:	Yosuke Shinoda, Representative Director
Head office	Shinjuku i-Land Tower 4F 5-1, 6-chome, Nishishinjuku, Shinjuku-ku, Tokyo
Capital	378 million yen
Number of employees	240 (all group companies, excluding contract and part-time employees)

**Becoming
the center of industry,
headwaters.**

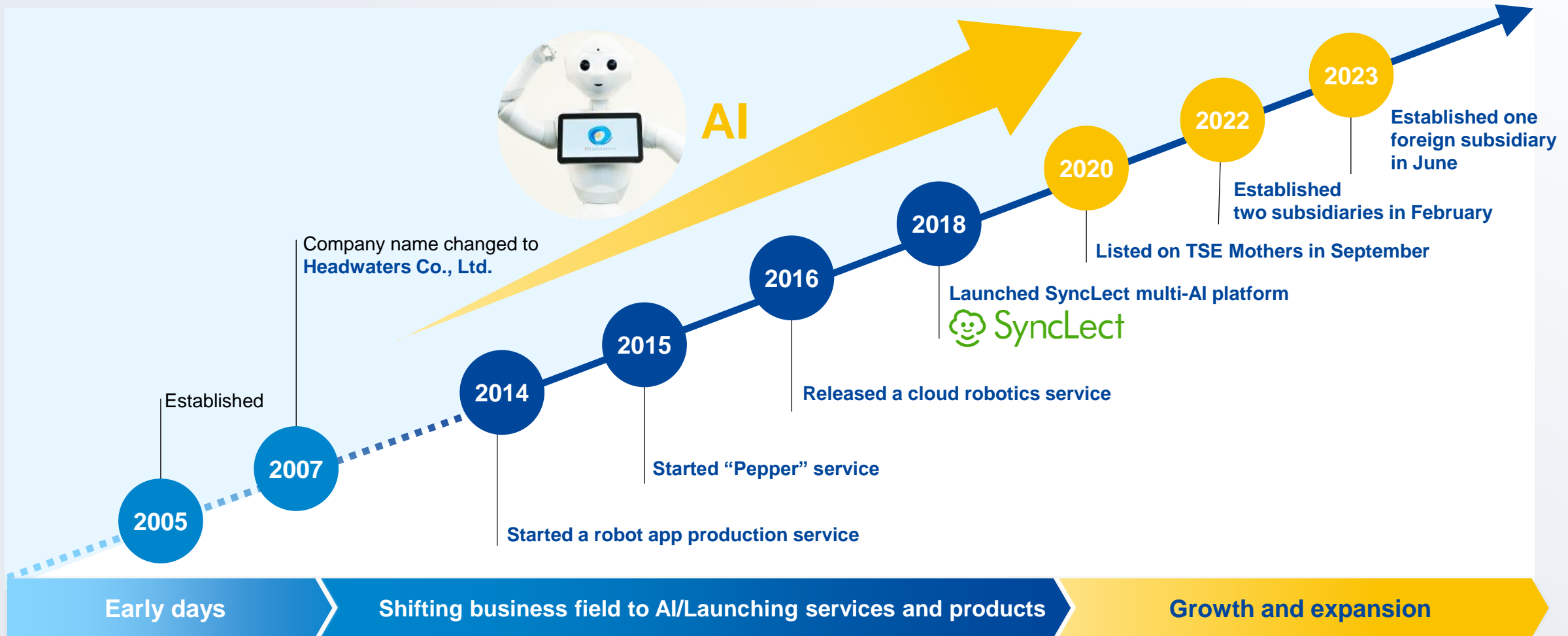
Engineering × Business = ∞

**Implement new technology
to the society**



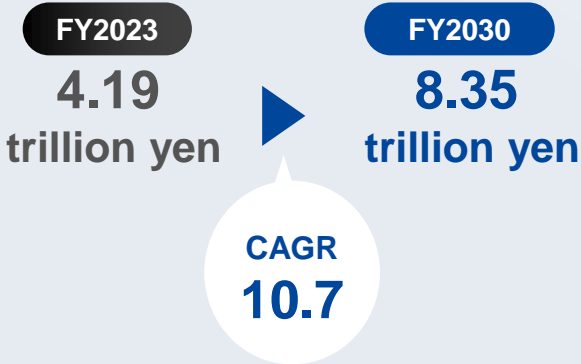
Our Commitments Since 2005

Headwaters is a front-runner in the field of AI, with abundant data, analytical methods, and development capabilities accumulated since the early days of AI.



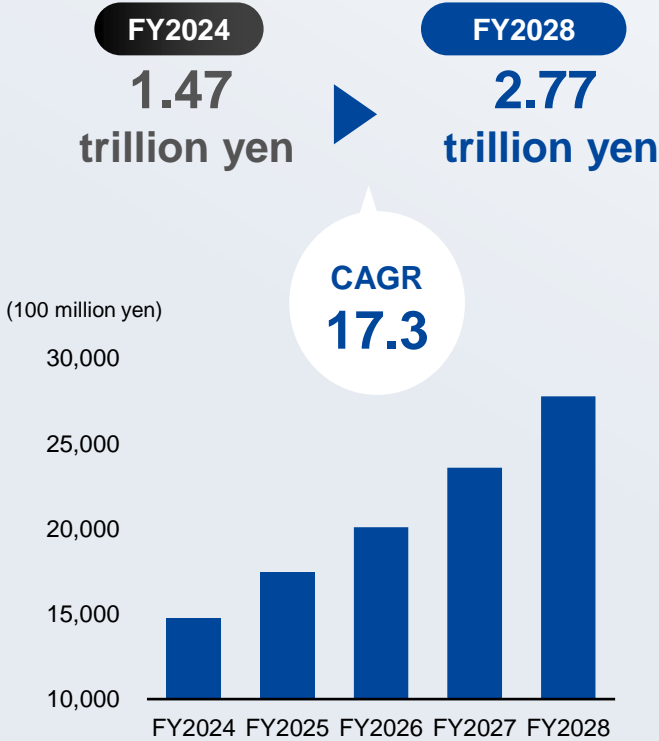
Growing need for DX and AI for raising manufacturing efficiency and becoming more competitive as Japan’s aging population lowers the working age population
Generative AI/AI agent sector demand is expected to grow at an average annual rate of 42%.

The DX Market in Japan

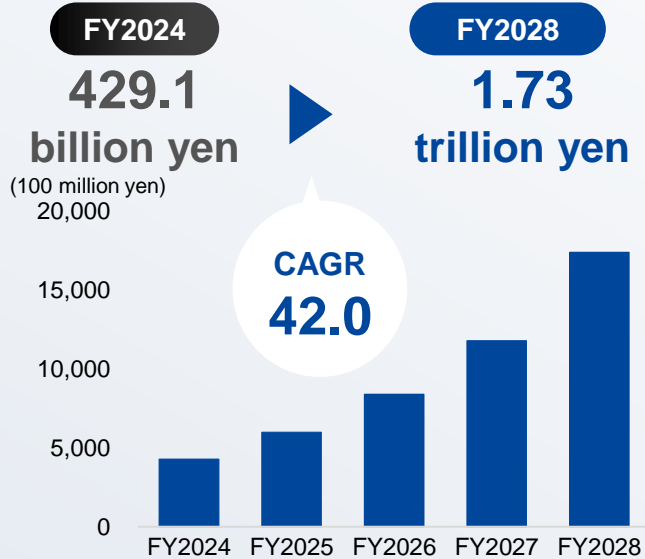


Industry-specific DX Market	CAGR
Manufacturing DX market	12.8
Financial DX market	11.0
Transportation/Logistics DX market	15.0
Medical/Nursing care DX market	10.2
Municipality DX market	10.4

The AI Business Market in Japan



The generative AI Market in Japan

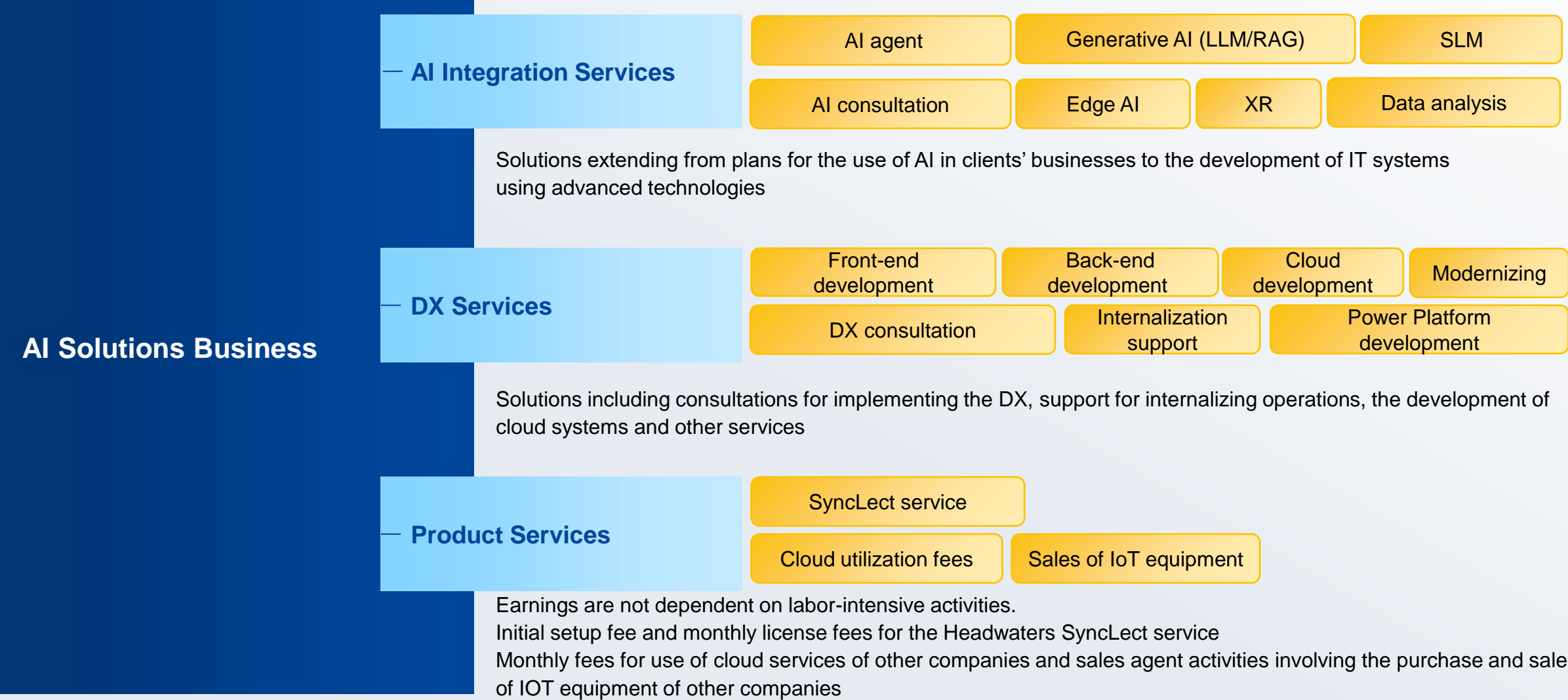


Generative AI Market in Japan	CAGR
Large language models (LLM)	46.2
GPU servers	28.1
GPU clouds	34.0

Source: Compiled by Headwaters based on the “2025 Total Research on the Growing AI Market through Generative AI and LLM,” “Future Outlook of the 2024 Digital Transformation Market” by Fuji Chimera Research Institute Co., Ltd., “Survey on IT Personnel Supply and Demand” by Mizuho Information & Research Institute, Inc. and “2023 Survey of Trends in Key Business Sectors” by Japan Electronics and Information Technology Industries Association



Offering services by dividing our AI solutions business into three service categories and synergistically combining them

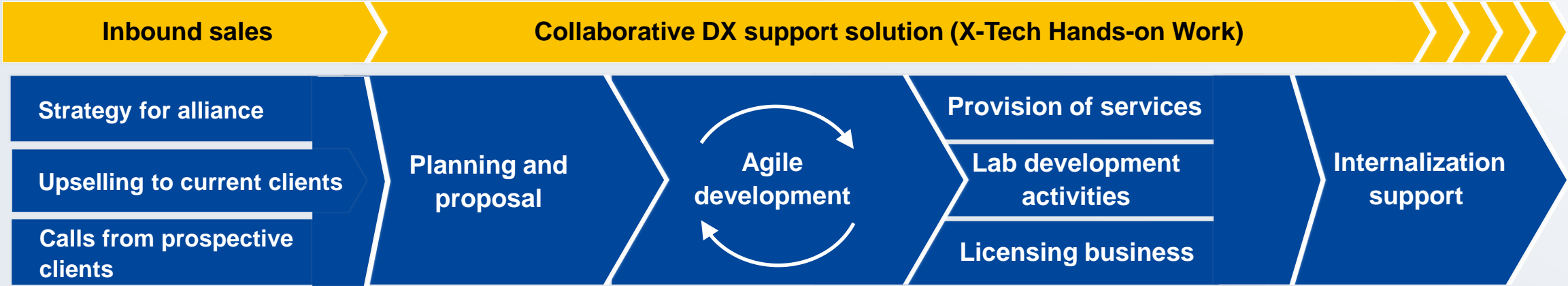




After engaging in extensive communication with our customers, Headwaters provides a highly practical system with “**end-to-end**” functionality

The key points

- Gaps created by ambiguous requirements, unreasonably high expectations about AI and the technological limitations of AI
→ **A collaborative DX support solution** that prevents perception/expectation gaps among customers (**X-Tech Hands-on Work**)
- Enlargement of support capabilities for planning/proposal and DX execution at projects requiring generative AI, AI agent, edge AI and other elements to meet clients’ needs
- **Agile development methodology** for the ability to make updates using the latest technologies whenever possible
- Use **inbound sales** backed by active IR/internet disclosure of info about advanced technologies to enable engineers to use technologies for effective sales activities





The ideal approach as an innovation partner

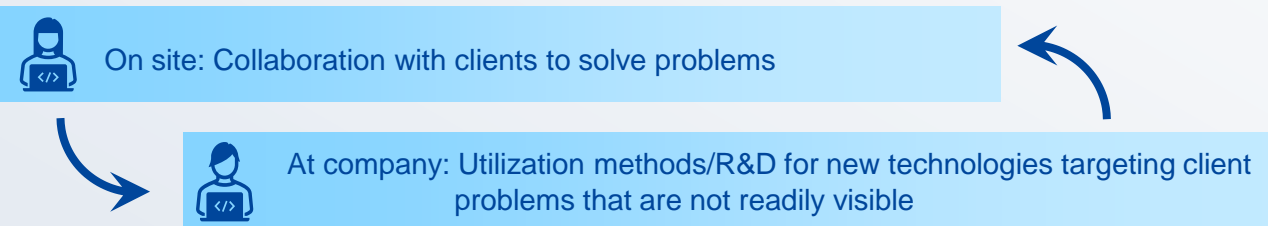
The collaborative DX support solution



X-Tech . . . Creates new forms of value by combining different technologies with specialized knowledge.

Hands-on Work . . .

Solutions created by working side-by-side with clients are customized to support the internalization of production tasks.

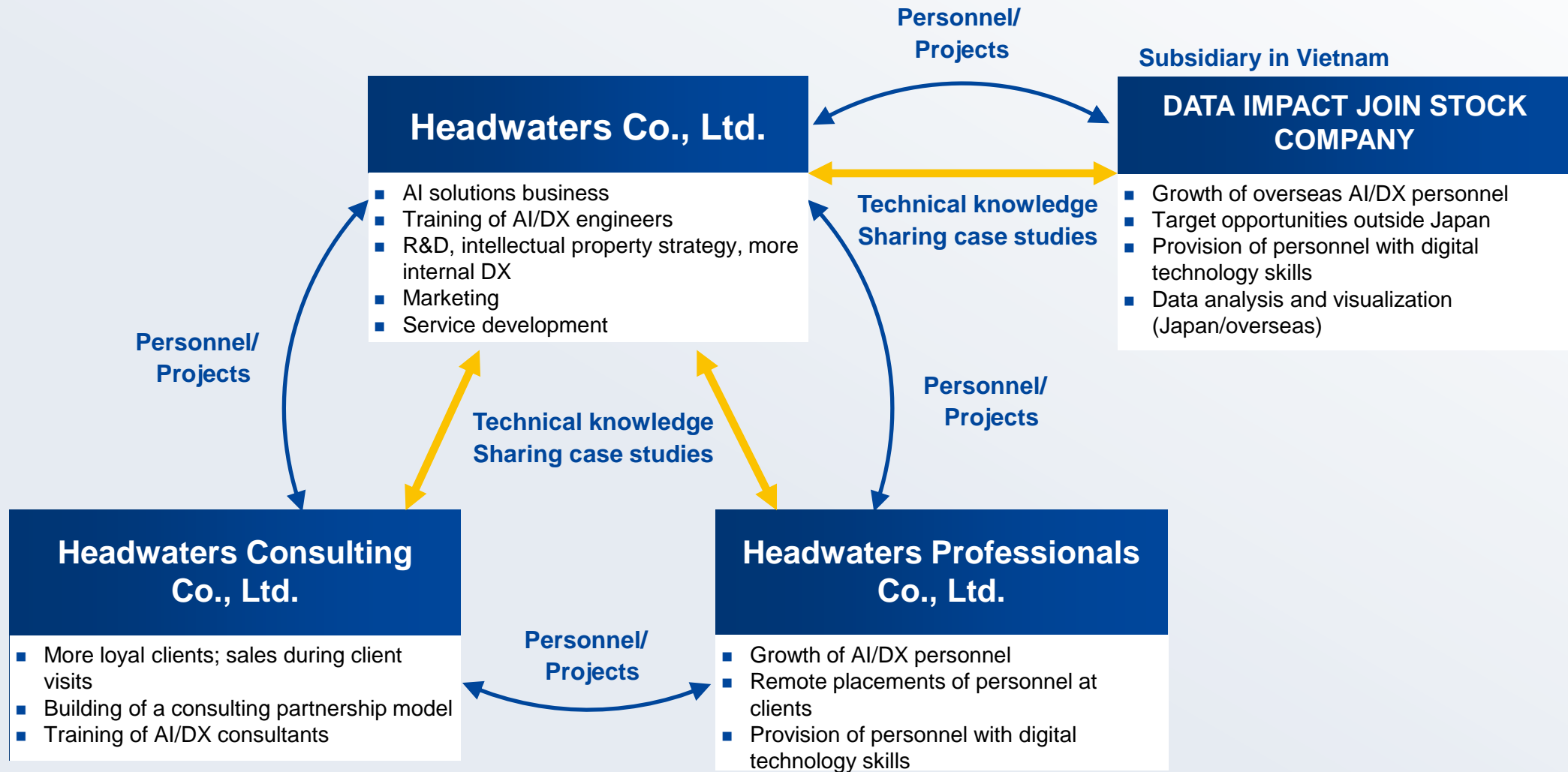


Customer success due to the effective and extensive use of new technologies by clients

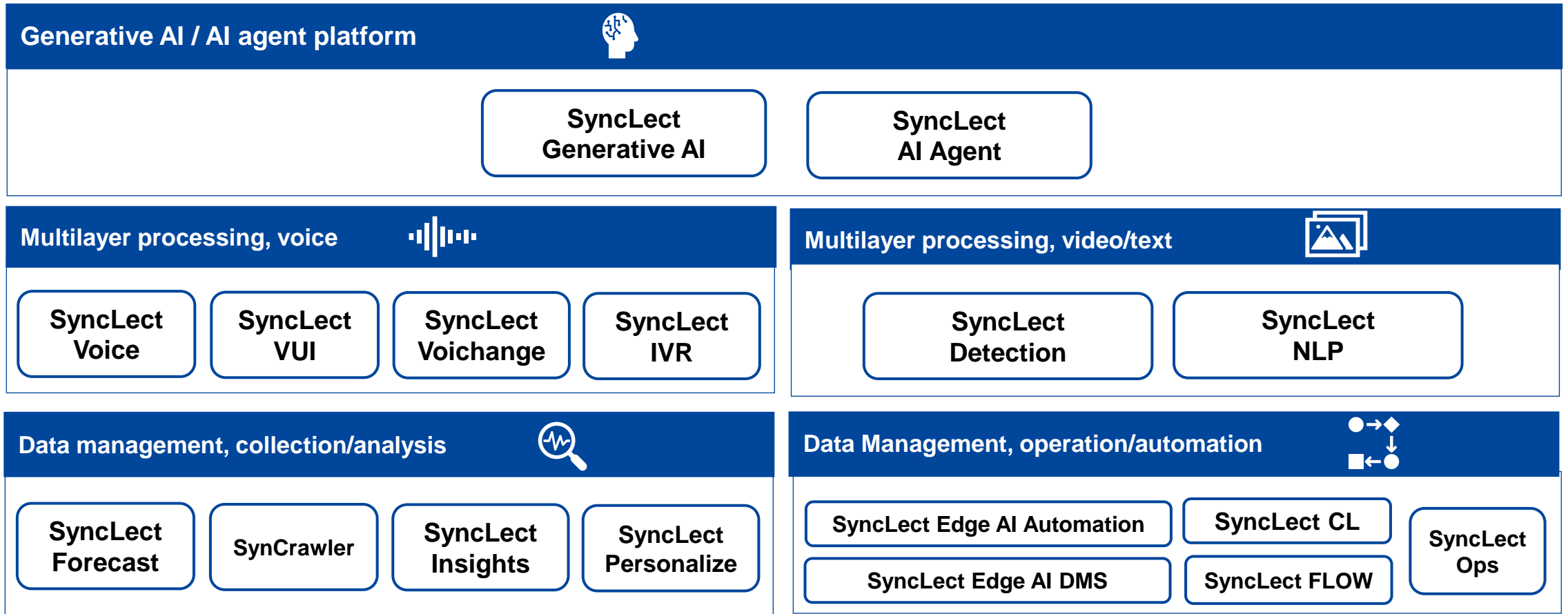
- ✓ Developing new businesses for clients , including more departments and group companies
 - ✓ Create joint services
 - ✓ Use alliances to become more competitive
 - ✓ Recurring revenue businesses using revenue sharing and licensing models
- Sales growth is backed by the complete integration of services extending from consulting to development and system operations in both the AI and DX domains.



The Roles of Group Companies



A next-generation multi-AI platform that speeds up the AI strategies of companies and encompasses many types of AI solutions
Comprehensive DX support for companies backed by a large lineup of services, with generative AI, audio/video processing, data analysis and automated operations





Solutions Provided in Selected Business Sectors

Manufacture/Automobile

- Establishment of multimodal generative AI platforms
- Higher generative AI RAG precision for purchasing/ordering
- Automotive edge AI agent
- Document translation AI agent for manufacturers
- On-premises conversational AI digital human
- Conversational generative AI robotics
- New energy platform
- Smart glasses XR development
- Digital twin

Retail/Logistics/Consumer goods

- AI agent for product planning
- Customer service robot using generative AI
- Assistance for using AITRIOS
- Visual AI for monitoring cargo handling times
- AI visual detection retail media
- AI camera for analysis of purchasing activity at stores
- Sales data platform

Finance/Insurance

- AI agent for contact centers
- Agentic RAG architecture
- Conversational AI avatar
- Generative UI
- Support for using generative AI for financial services
- Support for business process reforms and higher efficiency



Transportation/Public sector /Medical

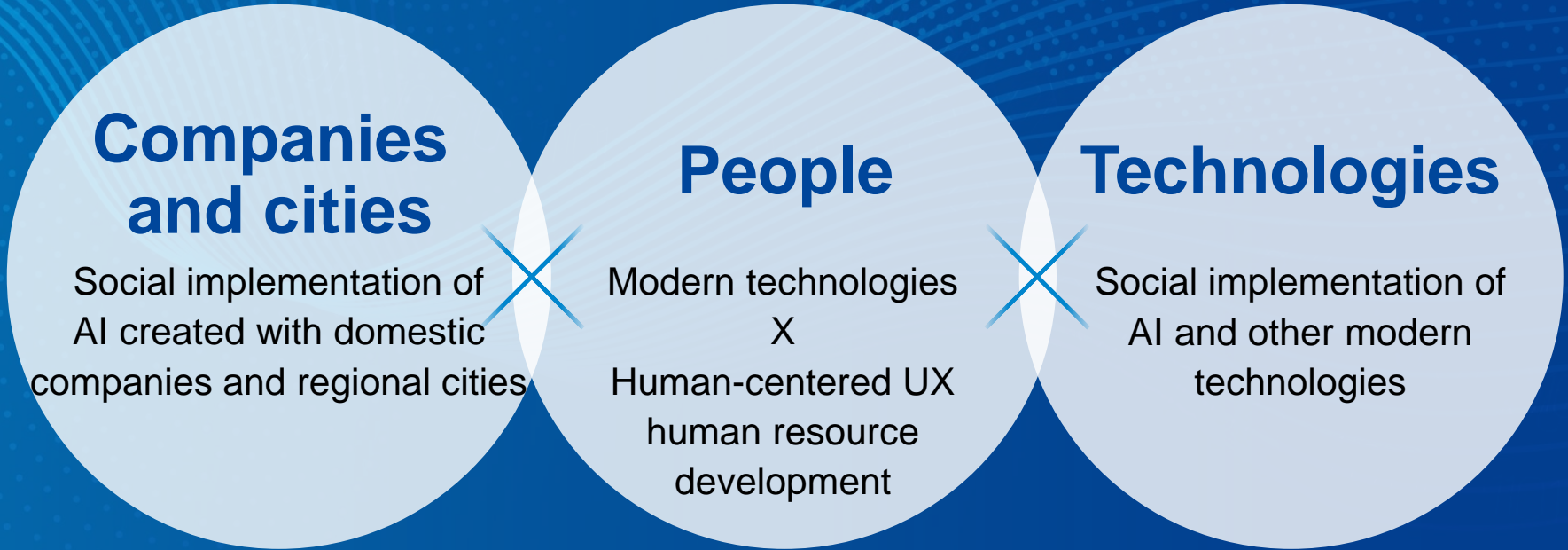
- Railway station staff AI agent
- Multimodal AI Mobile App Copilot
- AI agent for vocal input of medical drug use
- Base for Shibuya City data linkage platform
- Workshop for Tokyo Metropolitan University students

Communications/Broadcasting

- Generative AI verification for telecommunication companies
- AI agent for checking for risky words in broadcasts
- Grammar check/correction AI agent
- AI automatic check for anime videos
- Next-generation IoT communication technologies
- Generative AI dialog concierge
- XR platform
- Support for internal production of low-code apps



Social implementation of AI technologies



02 — Highlights of FY2024

- Accomplishments
- Improvements



FY2024 Consolidated Financial Results Overview

(Thousand yen)

(Thousand yen)

	FY2023 Results		FY2024 Results			
		Pct. to net sales (%)		Pct. to net sales (%)	YoY change (%)	Vs. annual plan * (%)
Net sales	2,315,088	100.0	2,905,981	100.0	125.5	99.2
AI	956,313	41.3	1,451,703	50.0	151.8	97.1
DX	1,250,068	54.0	1,312,035	45.1	105.0	99.4
Product	108,708	4.7	142,243	4.9	130.8	125.2
Operating profit	94,861	4.1	307,954	10.6	324.6	105.1
Ordinary profit	98,300	4.2	362,432	12.5	368.7	122.0
Profit attributable to owners of parent	70,683	3.1	272,787	9.4	385.9	132.4
Net income per share	37.70 yen		72.01 yen			

* Sales and earnings vs. the annual plan are based on the revised forecasts that were announced in the November 14, 2024 notice regarding the revision of the full-year earnings forecasts.

Net Sales

2,905 million yen

- YoY change: **+25.5%**
- Vs. annual plan: 99.2%

All-time High

FY2024 Key Performance Indicators: **Sales, Operating Profit, Recruiting**

Accomplishments

- **Sales increased 25.5% in FY2024 to a new record high for the sixth consecutive year.**
 - Impacted by the increase of inquiries and orders for generative AI projects due to the strengthening of the alliance with Microsoft.
 - Generative AI sales (new customers) increased rapidly to more than 450 million yen.
 - Efforts to receive multiple projects from existing clients through the development of new businesses for them contributed to the creation of a stable revenue base.

Improvements

- Fluctuations in sales increased because, due to a larger number of short-term projects, the impact of seasonal changes associated with the client base shift to enterprise level was greater than expected.

* Sales vs. the annual plan is based on the revised forecasts that were announced in the November 14, 2024 notice regarding the revision of the full-year earnings forecasts.



Operating Profit

307 million yen

- YoY change: **+224.6%**
- Vs. annual plan: 105.1%

Ordinary Profit

362 million yen

- YoY change: **+268.7%**
- Vs. annual plan: 122.0%

Accomplishments

- **Record high** operating profit and ordinary profit.
 - Gross margin 42.7% and operating profit margin 10.6% due to increasing unit sales prices, the control of the percentage of sales involving partner companies, and priority on quality-focused projects to prevent money-losing projects.
- SG&A expenses up 22.6% because of investments related to recruitment and personnel expenses.

Others

- Non-operating income includes a gain on valuation of derivatives slightly less than 50 million yen associated with the purchase of stock involving the alliance with BTM.

* Profit vs. the annual plan is based on the revised forecasts that were announced in the November 14, 2024 notice regarding the revision of the full-year earnings forecasts.

Recruiting

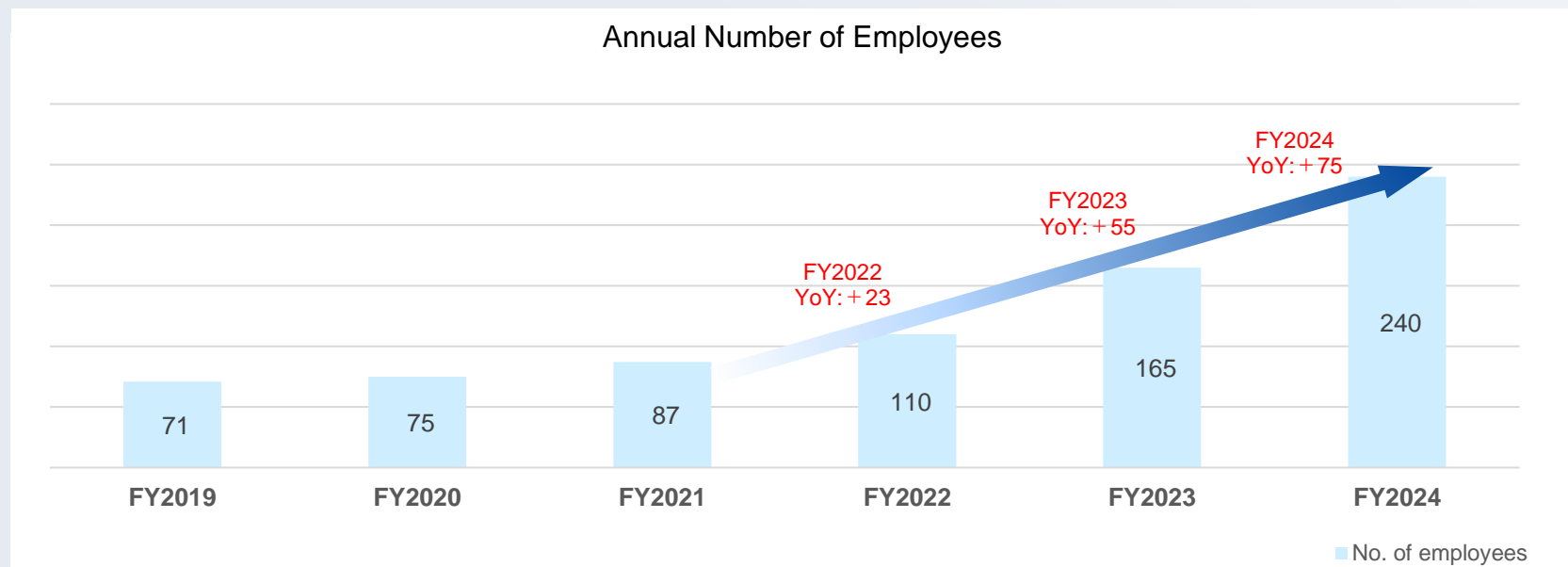
Net increase of 75 employees

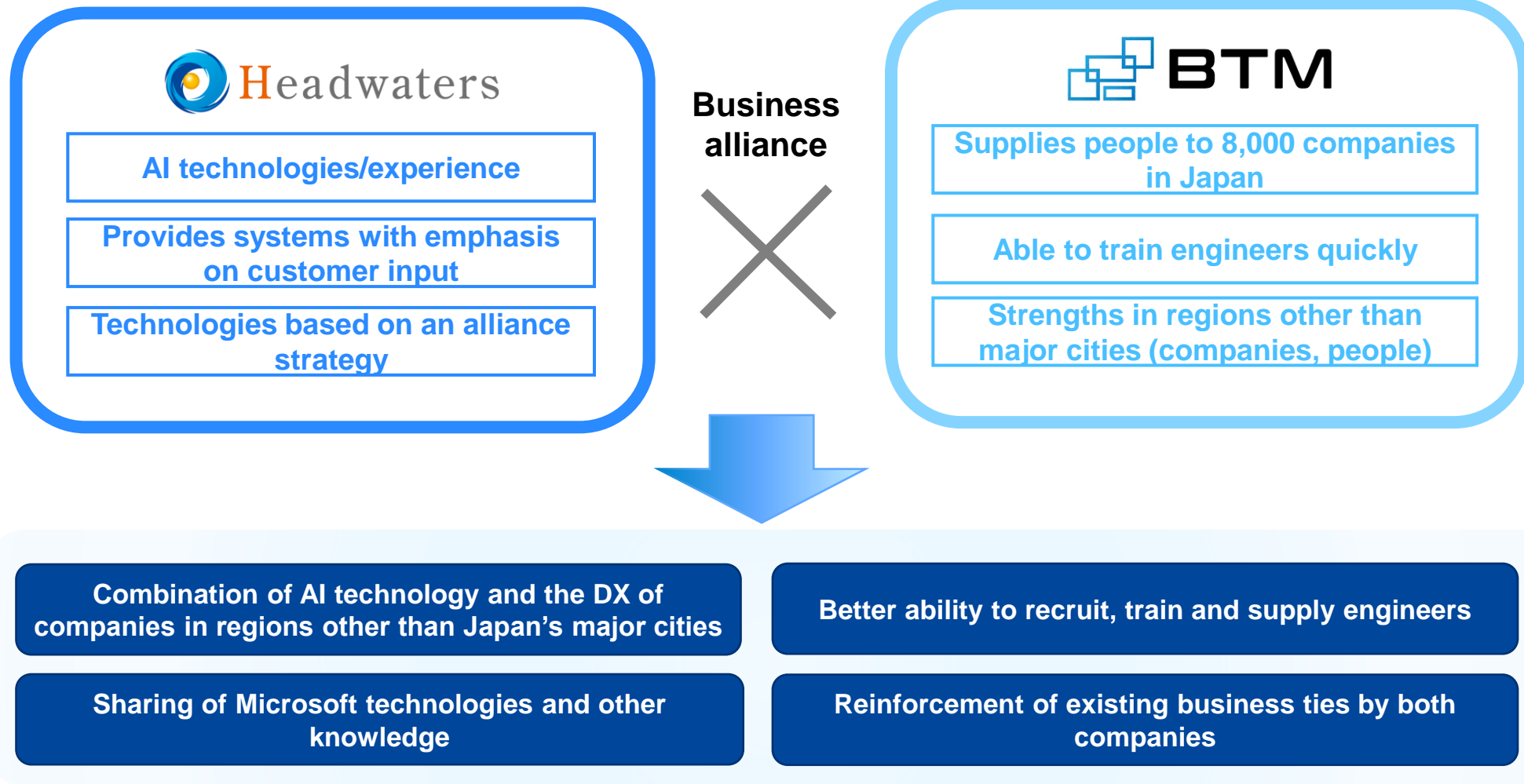
(The recruitment target for FY2024 is a net increase of 60 employees)

- Recruitment vs. target: 125%
- Turnover rate: 11.0%
(Turnover at 3 group companies in Japan: 9.0%)

Accomplishments

- Workforce increased to 240 at the end of 2024 *Excludes contract/part-time employees
→ Resignations: 19
- Newly hired experienced people became productive quickly (avg. of 2-3 months)





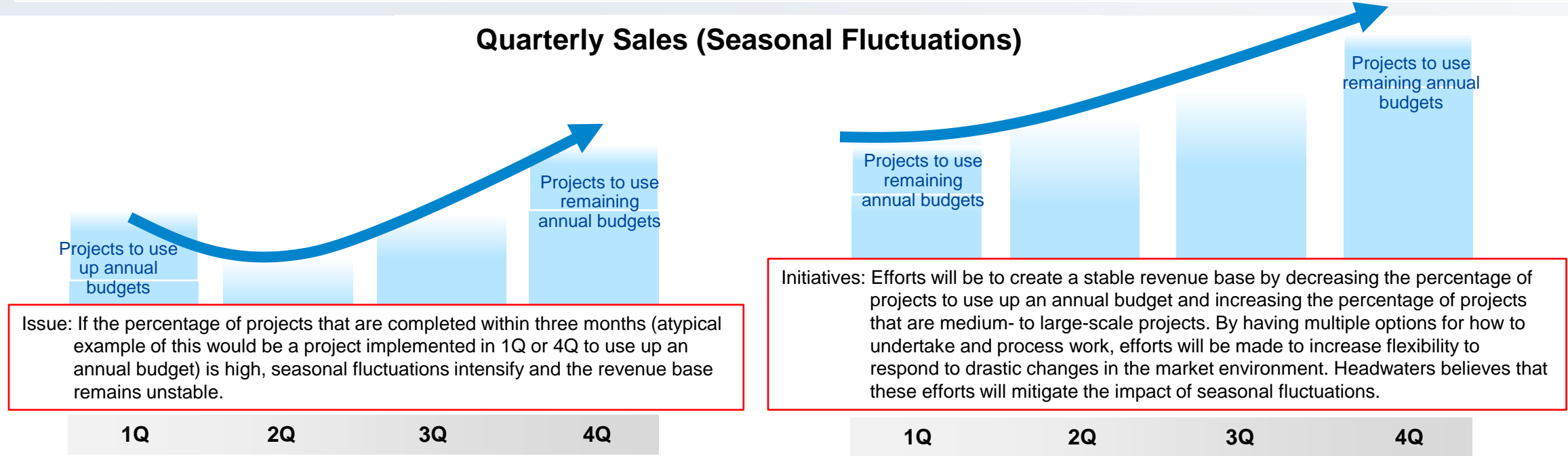


Seasonal Fluctuations in Net Sales

Headwaters' sales are forecast that usually incorporates seasonal fluctuations. Considering these fluctuations to be a management issue, Headwaters has prepared its FY2025 forecasts with an eye toward the creation of a stable revenue base.

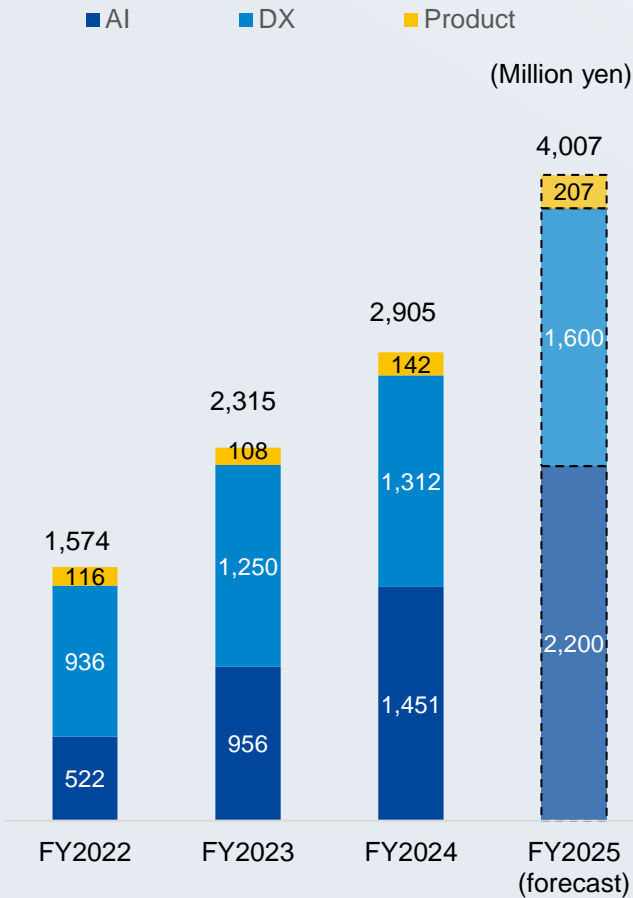
	Net sales	SG&A expenses	Characteristics
1Q	Low	Medium	As the period will be characterized by a flood of projects, efforts will be made to control seasonal fluctuations by shifting to the acquisition of orders with a focus on medium- to large-scale projects.
2Q	Medium	High	Sales will be stronger than the level of 1Q due to the launch of large-scale projects, and SG&A expenses will increase due to the impact of progress in recruitment.
3Q	High	Very high	Sales are strong if recruitment is steady in 3Q. It is expected that recruitment continues from 2Q and SG&A expenses rise steeply.
4Q	Very high	Medium	As sales are at their highest point and recruitment is decreasing, SG&A expenses will be a certain percentage of total expenses due to a steep increase in personnel expenses.

Quarterly Sales (Seasonal Fluctuations)

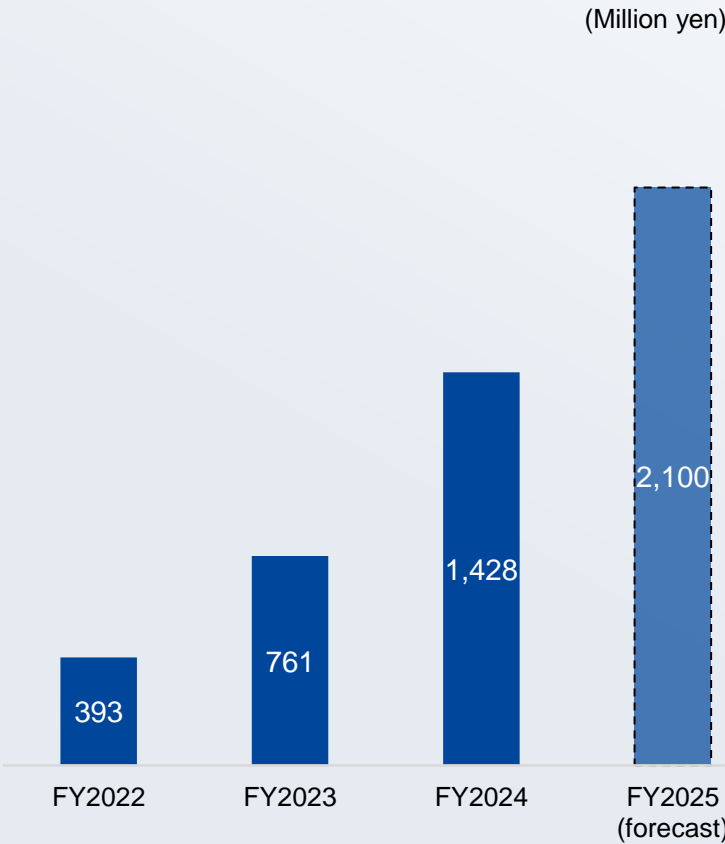




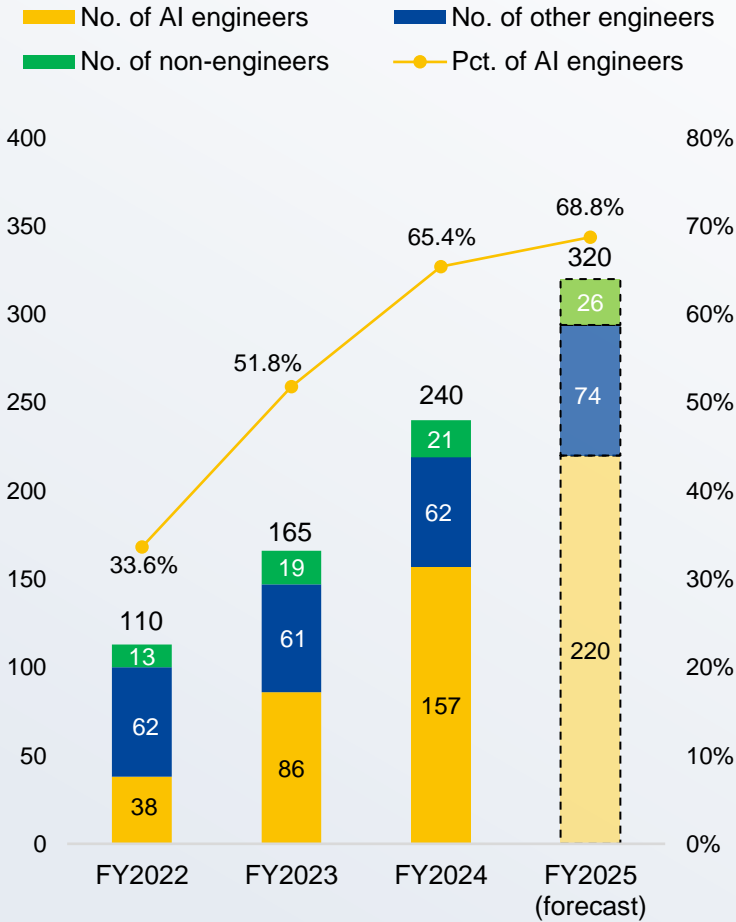
Net Sales by Service Category



Alliance Strategy-Related Sales



No. of Employees and AI Engineers



*The OPS services category was terminated from FY2024.
*The figures have been consolidated, including group companies, since FY2022.

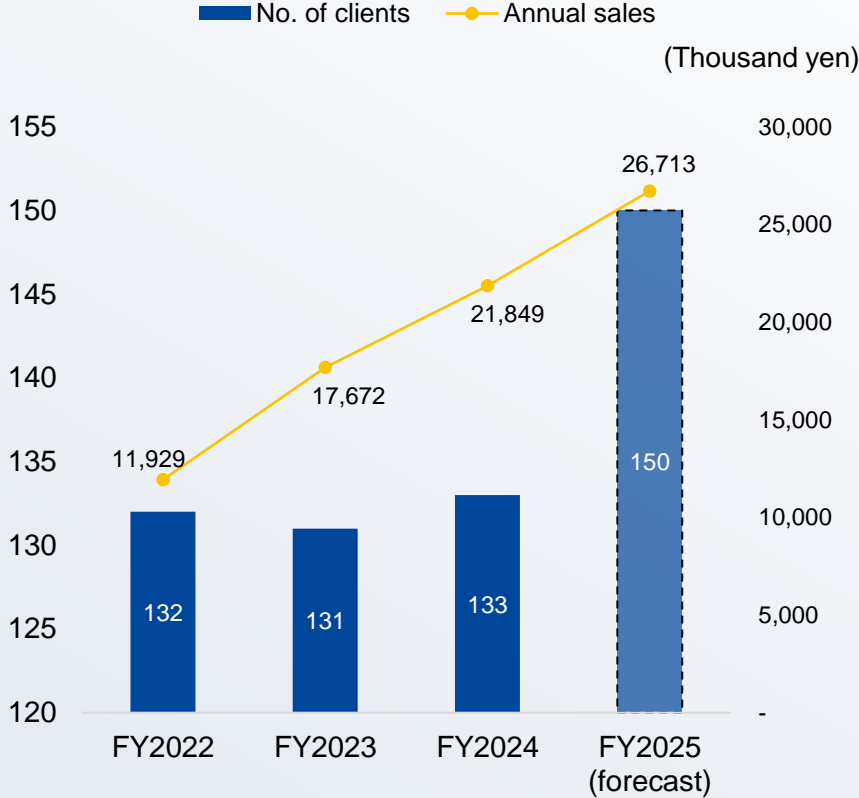
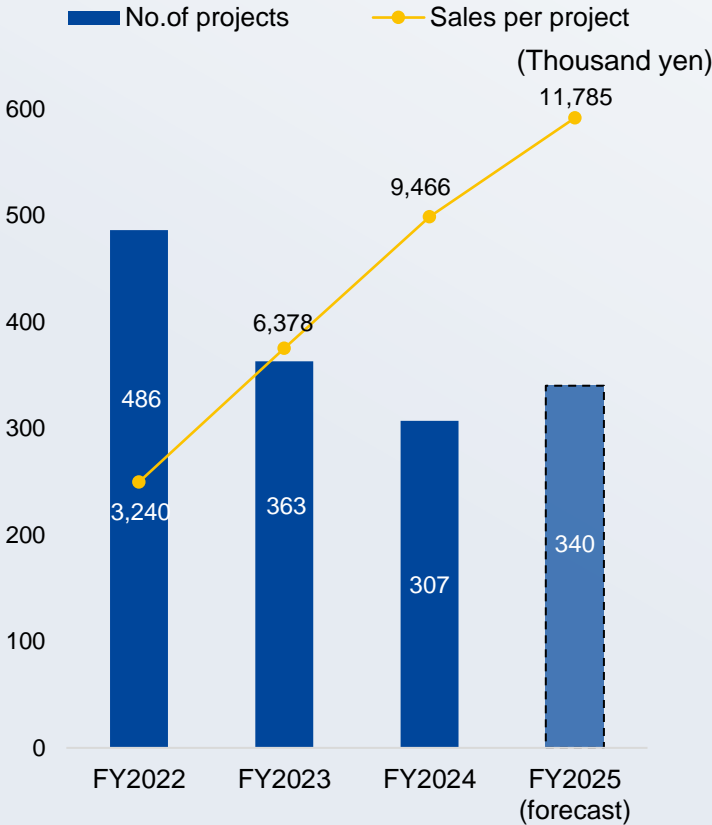
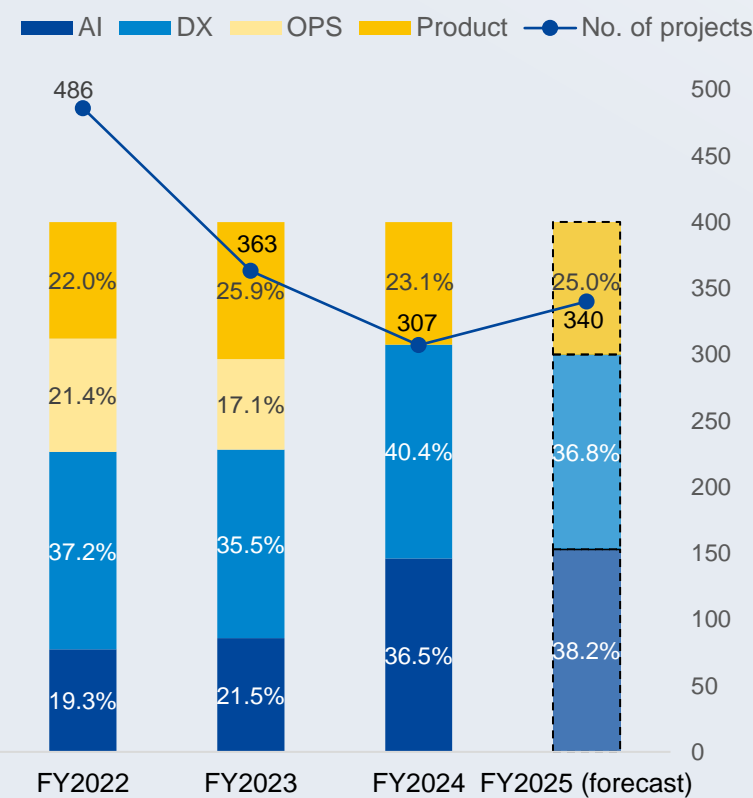
*excluding contract and part-time employees



No. of Projects and the Ratio of Projects by Service Category

Sales per Project

Annual Sales per Client



*The OPS services category was terminated from FY2024.

Short term

— Meet Demand for Generative AI

Essential to meet generative AI needs involving the receipt of orders and training programs, particularly concerning **AI agents**
→ R&D programs have already cut the number of steps by 30% to 50%

Reference: KPI
Net Sales by Service Category
No. of Projects and the Ratio of Projects by Service Category

— Utilize External Resources

Sales is increasing rapidly through **alliance strategy**.
Strengthened collaborations with major companies, such as Microsoft

Reference: KPI
Alliance Strategy-Related Sales
Annual Sales per Client

Medium to long term

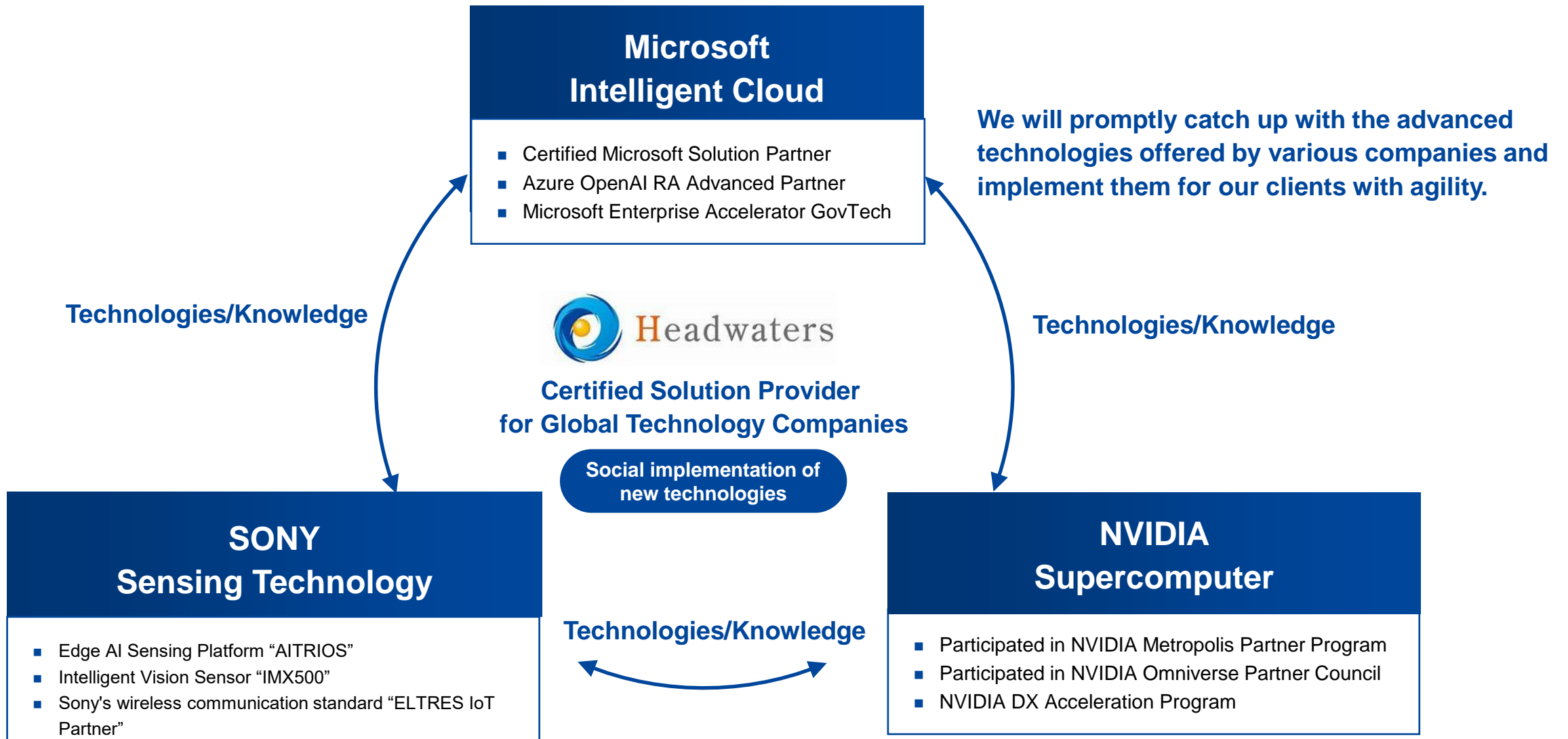
— Increase Recurring Revenue

Improving the sales strategy and contract formats of businesses including X-Tech Hands-on Work to establish a base for consistent revenue

Reference: KPI
Net Sales by Service Category

— New Sources of Revenue

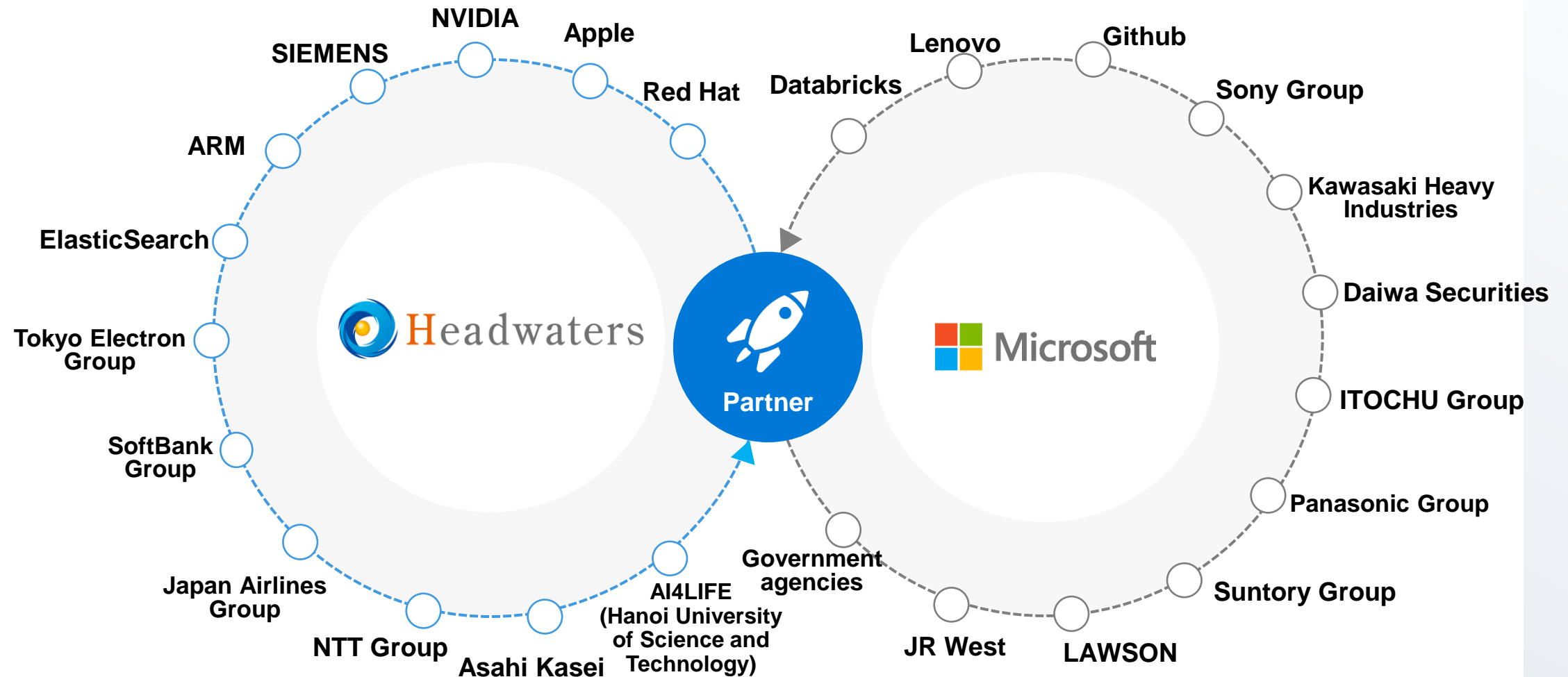
Use R&D for new technologies and develop innovative services to support the licensing business model.





Alliance Strategy: Microsoft × Partner To Partner

Accelerating business by leveraging Microsoft's customer base and technology along with our own customer base and technical expertise and building an ecosystem through "Joint Sales x Joint Marketing x Joint Solutions."





Our Trusted Clients & Alliance Partners

Upgraded alliances and used web-based pull marketing for business with leading firms in many industries and fields

Manufacturing

- Sony Group Corporation
- Sony Corporation *
- Sony Semiconductor Solutions Corporation *
- Hitachi Construction Machinery Co., Ltd.
- Kubota Corporation *
- SUMITOMO CONSTRUCTION MACHINERY CO., LTD. *
- Mitsubishi Chemical Corporation *
- Mitsubishi Chemical Research Corporation *
- FUJIFILM Holdings Corporation
- FUJIFILM Corporation *
- Panasonic Connect Co., Ltd.
- NIKON CORPORATION *
- JGC CORPORATION *
- YKK CORPORATION

Transportation/Automobile

- Japan Airlines Co., Ltd.
- West Japan Railway Company *
- Keio Corporation
- Toyota Tsusho Corporation
- Nissan Motor Co., Ltd.

Robot

- Kawasaki Heavy Industries, Ltd.
- Remote Robotics Inc.
- SoftBank Robotics Corp.

Consumer goods

- ITOCHU Corporation
- Suntory Holdings Limited *
- Suntory Spirits Ltd.
- Suntory Beverage & Food Limited *
- Sapporo Holdings Limited
- Nisshin Flour Milling Inc.
- ITO EN, LTD.
- Asahi Kasei Corp.
- NISSIN FOODS HOLDINGS CO.,LTD. *
- MITSUBISHI PENCIL COMPANY, LIMITED *

Communication

- Apple Inc.
- NIPPON TELEGRAPH AND TELEPHONE EAST CORPORATION
- NIPPON TELEGRAPH AND TELEPHONE WEST CORPORATION *
- NTT DATA Japan Corporation
- Cisco Systems G.K. *
- Fujitsu Limited *
- Marubeni Network Solutions Inc. *
- TelWel East Japan Corporation *

Real Estate/Construction

- SHIMIZU CORPORATION
- TAISEI CORPORATION
- Mitsui Fudosan Co., Ltd.
- DAIWA HOUSE INDUSTRY CO., LTD. *

Finance/Insurance

- Daiwa Securities Co. Ltd. *
- Daiwa Securities Group Inc. *
- Nippon Record Keeping Network Co., Ltd.
- Meiji Yasuda Life Insurance Company
- Prudential Life Insurance Co., Ltd. *
- Seven Bank, Ltd.

Retail/Distribution

- Lawson, Inc.
- Pan Pacific International Holdings Corporation
- BICCAMERA INC.
- SEVEN-ELEVEN JAPAN CO.,LTD.
- NITORI Co., Ltd.
- Takashimaya Company, Limited

Government/Public Sector

- Ministry of Economy, Trade and Industry
- Shibuya City Office
- Tokyo Metropolitan Government Bureau of Environment *
- Sojo University
- National Agriculture and Food Research Organization

(In no particular order; an asterisk denotes a new client acquired within the past year.)

03 — Consolidated Forecasts for FY2025



Consolidated Forecasts for FY2025

(Thousand yen)

	FY2024 Results	
		Pct. to net sales (%)
Net sales	2,905,981	100.0
AI	1,451,703	50.0
DX	1,312,035	45.1
Product	142,243	4.9
Operating profit	307,954	10.6
Ordinary profit	362,432	12.5
Profit attributable to owners of parent	272,787	9.4
Net income per share	72.01 yen	

(Thousand yen)

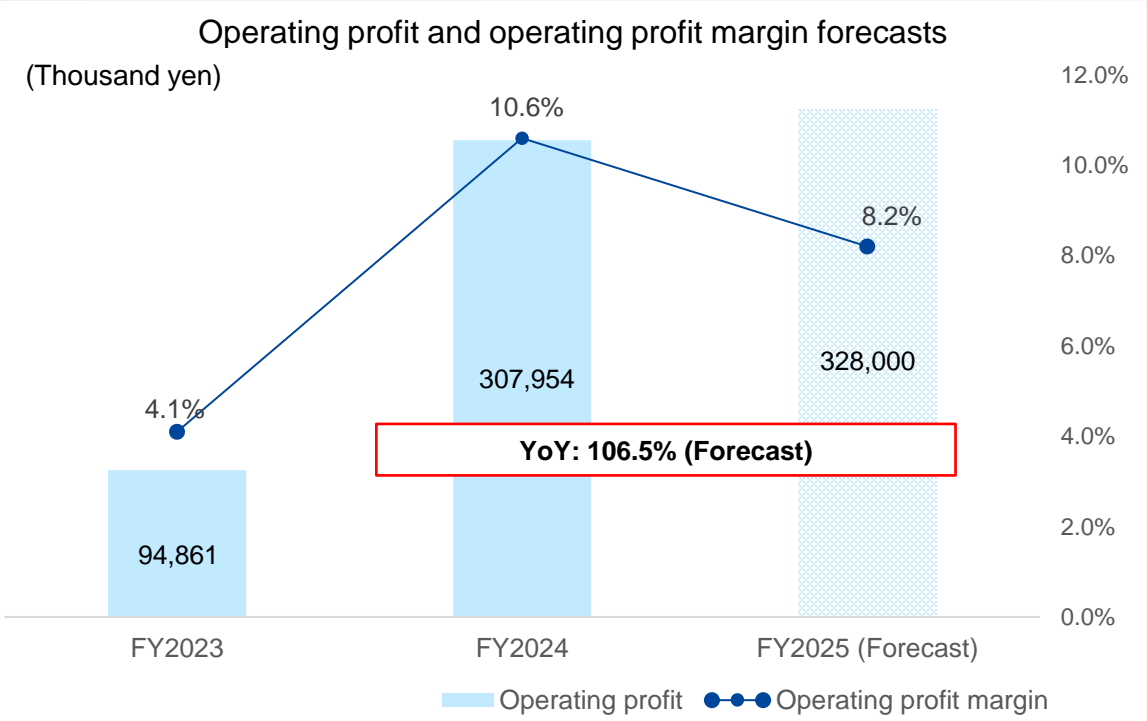
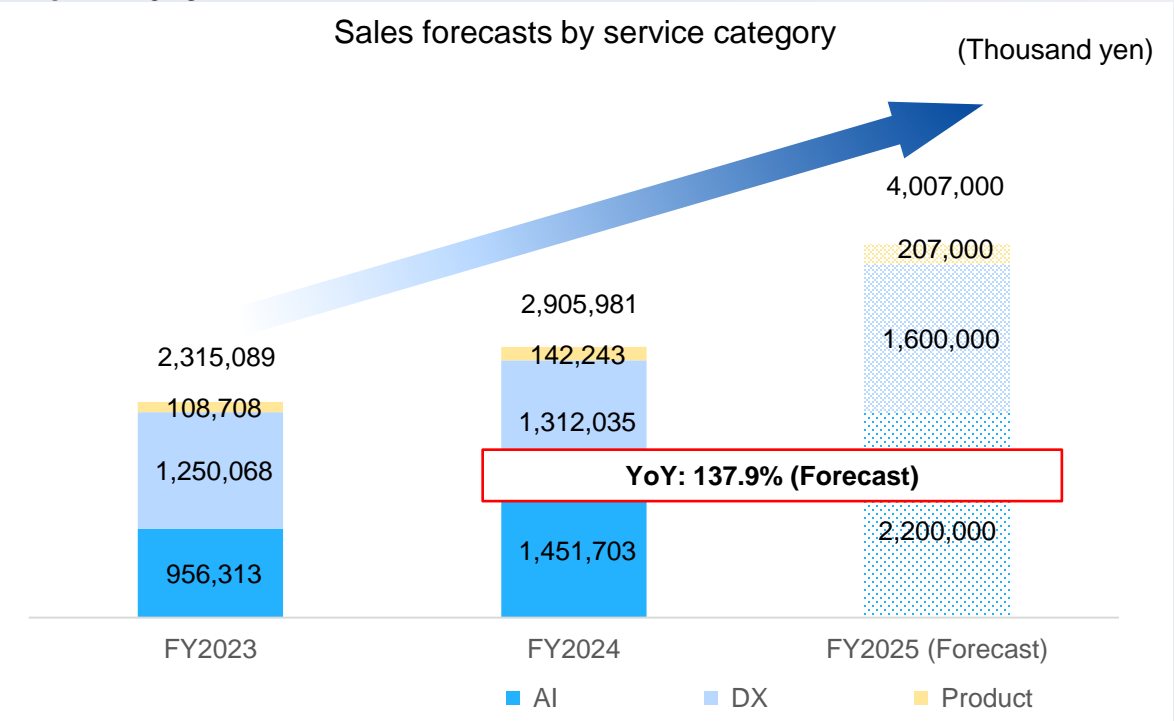
	FY2025 Forecasts	
	Pct. to net sales (%)	YoY change (%)
	4,007,000	100.0
	2,200,000	54.9
	1,600,000	39.9
	207,000	5.2
	328,000	8.2
	332,000	8.3
	237,000	5.9
	62.57 yen	



FY2025 Forecast

Headwaters believes that FY2025 is a breakthrough year for AI agents and a period in which the generative AI market will continue to expand. In response to this market environment, Headwaters has positioned this year as a year of investment, in which it aims to significantly increase the volume of sales to further accelerate the growth it has been recording.

- KPI: **Sales and recruiting**
- Net sales: Sales target of **4.0 billion yen** with year-on-year growth of 37.9%, exceeding the growth rate for FY2024.
- Recruiting: Necessary investments will be made for a **net increase of 80 employees** and a turnover rate of 10% or less.
- Sales strategy: Resources will be allocated to acquire orders for large-scale projects and strengthen business teams, as well as to implement the alliance strategy and develop new businesses for existing clients.
- Operating profit: While investments will be prioritized with a view toward the expansion of the volume of sales, operating profit is expected to **rise 6.5%**.
- Ordinary profit: Profit is expected to decrease because a gain on valuation of derivatives, which temporarily occurred in FY2024, will not be factored in the plan for FY2025.



* Forecast figures may change as they are as of the time of disclosure of these materials.

04 – Challenges and Strategies



Future Initiatives

Increase in Sales

- Activities for adding loyal clients and developing new businesses for existing clients
 - ▶ Focus resources on growing markets (generative AI) and developing new businesses
 - ▶ Continue to increase joint activities with alliance partners

Improvement of Profit Margin

- Earn higher fees by using business engineers with knowledge of advanced technologies for collaborative development projects with clients
- Higher unit sales price, control of the percentage of sales involving partner companies, and the use of generative AI to increase operational efficiency
 - ▶ Continue activities with the goal of an operating margin of at least 20%

Stabilization of Revenue

- Develop new businesses for existing clients to increase client retention for greater client life time value
- Increase recurring businesses involving collaborative development projects using X-Tech Hands-on Work
 - ▶ Use one-time AI and DX projects for the steady growth of product service sales

Securing Human Resources

- Retain talented people by using health management to place priority on staying healthy and providing a pleasant workplace environment
 - ▶ Strengthening internal programs for the purposes of upgrading training and increasing employee engagement
 - ▶ Continue to hire large numbers of new graduates and people with prior work experience

Enhancement of Employee Benefits

- Reexamine salaries to match job positions and skills and take steps for more flexibility regarding working styles
- Enhance benefits such as the restricted stock compensation plan, support for caring for a child or aging parent, and other programs



Generative AI and AI Agent Structure and Positioning

Based on a variety of generative AI technologies, AI agents are advanced systems capable of reaching decisions and taking actions on their own.

Generative AI

Technologies that automatically create new content from existing data

Text models

LLM

Large language models

SLM

Small language models

RAG

Retrieval-augmented generation

Image models

Image generating models

Generation of images from text

Image editing models

Technologies for partial revisions/changes of images

Image comprehension models

Technologies for recognizing and analyzing images

Voice/music models

Voice generation models

Generation of music from text

Music generation models

Generation of music from text instructions

Multimodal models

Text/image integration

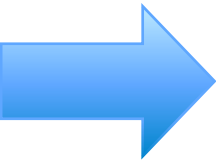
Vision language models

Video generation models

Generates video from text

Basic architecture of generative AI

Evolution



AI Agents

Intelligent systems based on generative AI that can act on their own

Main characteristics of agents

Autonomous

Continuous learning

Links to external tools

Goal-oriented/Perceives its environment

Types of agents

Conversational agents

Chatbot
Virtual assistant

Creation support agents

Content production support
Design production assistant

Task automation agents

Business process automation
Schedule management

Decision support agents

Ideas for strategies, risk analysis
Market forecasts, investment decisions

Search/analysis agents

Data analysis/collection
Research support system

Education/learning agents

Personalized learning
Tutoring system



Proprietary Generative AI Solution Service

SyncLect Generative AI / SyncLect AI Agent

Features of SyncLect Generative AI

- Convenient feature set for further leveraging Generative AI
- Can be used quickly, securely and at a low cost for solving the problems of companies

Features of SyncLect AI Agent

- Automatic AI linkage for handling complex tasks
- AI agents work together for business process optimization
- An AI platform that can be customized to match a company's requirements



Our solutions

- SyncLect GenerativeAI Service
- SyncLect AI Agent Service
- Agentic RAG Service
- Migration AI Agent Service
- Automotive edge AI Agent Service
- Prompt Engineering Lab Service
- Customized SLM Fine-tuning service
- Multimodal AI Lab Service
- Azure OpenAI Service × Voice DX



Recognized by Microsoft Japan as the leading partner in the AI category

Received the AI Innovation Partner of the Year Award, part of the Microsoft Japan partner of the year 2024 award program



Seven Headwaters engineers received a 2024 Microsoft Top Partner Engineer Award.



Acquired the AI and Machine Learning for Microsoft Azure specialization, a higher partner certification



Develop an AI operator in collaboration with Daiwa Securities Co., Ltd.—The transformation of the customer experience (CX) was realized using generative AI—

Headwaters, Headwaters Consulting and Daiwa Securities worked together to develop the Daiwa Securities AI Operator, the first dialogue AI system for a financial institution in Japan. Operations started on October 7, 2024, providing real-time responses to questions ranging from stock prices to a variety of procedures. Headwaters and Daiwa Securities used generative AI technologies for the development of an AI core agent and applications. The aim is an even better customer experience by serving the increasing number and variety of investors resulting from the start of Japan's revised NISA (Nippon Individual Savings Account) program. The next step is the use of customer feedback for even higher quality services and the ability to handle an even broader spectrum of needs.



AIがお答えします！

株価・マーケット情報や一般的な手続きは
ぜひAIオペレーターをご利用ください

AI に GOGO!

 **0120-81-22-55**
【平日】8:00～18:00（土・日・祝日・年末年始を除く）

※AIオペレーターご利用の際は「ご利用上の注意事項」をご確認ください
生成AI等の利用による先進的な試みのため注意事項のご理解をお願いします



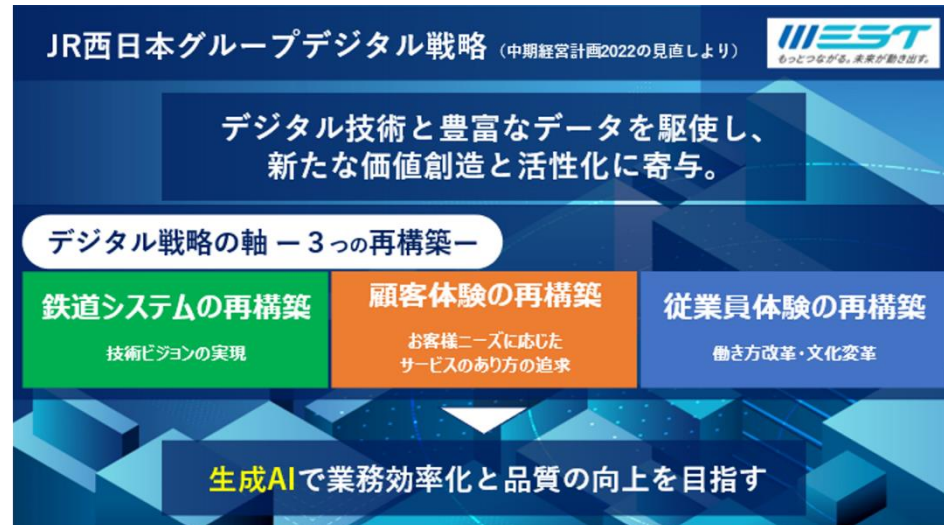
▲ Excerpt from Headwaters' generative AI presentation at Microsoft Japan's event



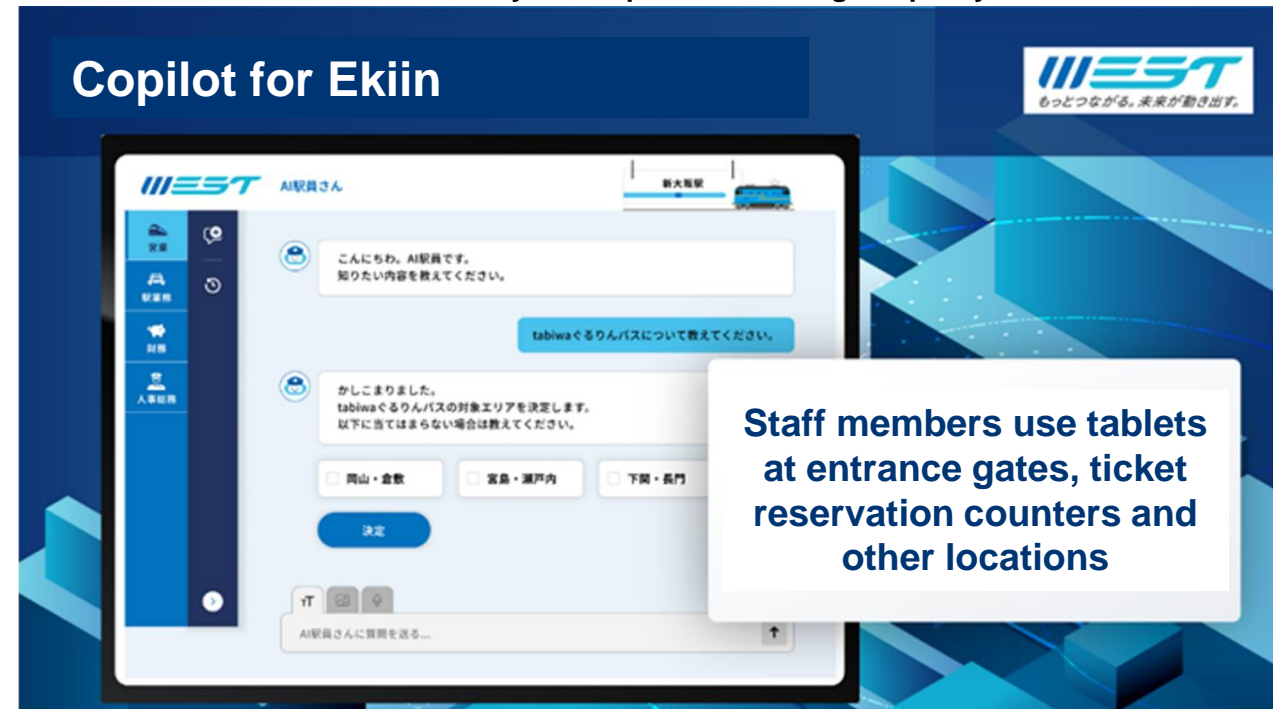
Support for developing the Copilot for Ekiin generative AI assistant



JR West and Headwaters started developing an app in March 2024 for starting a demonstration trial of Copilot for Ekiin. Headwaters used large language models (LLM) and expertise involving retrieval-augmented generation (RAG) systems for support involving a development project linking the Azure OpenAI Service and Microsoft Fabric on the SyncLect Generative AI platform. The plan is to gradually increase the number of railway stations using this generative AI assistant and enlarge the coverage of data analysis. The objectives are to enable the staff of stations to work more efficiently and to provide even higher quality services.



▲ The JR West Group's digital strategy
(Source: JR West session materials of Microsoft AI Day)



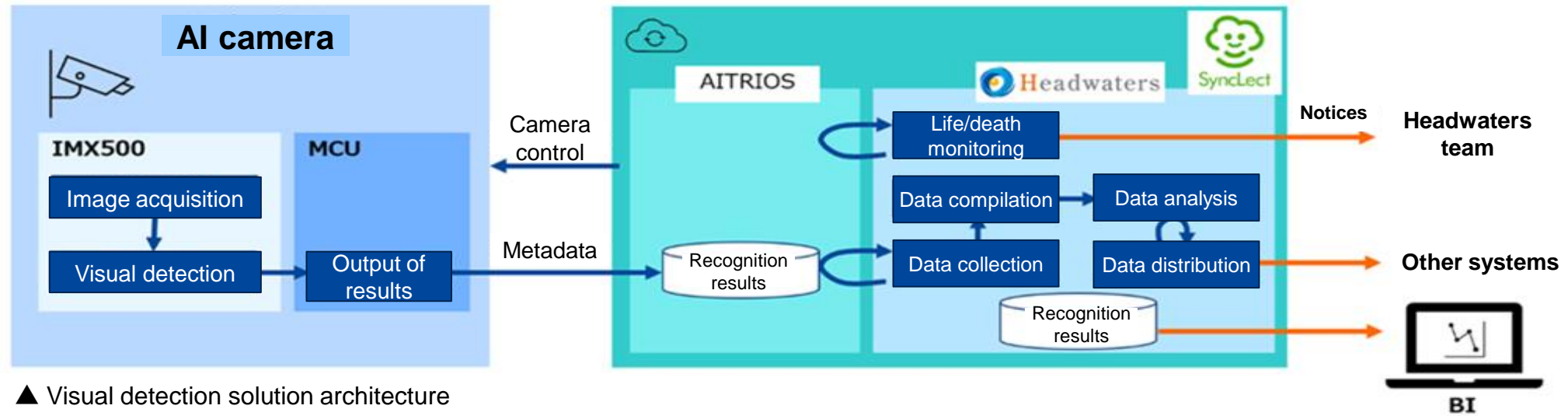
▲ An example of a Copilot for Ekiin display on a tablet

Launch of service for starting to use the visual detection solution using AITRIOS™



Headwaters has launched a service that assists clients with starting to use a visual detection solution that incorporates AITRIOS™, an edge AI sensing platform provided by Sony Semiconductor Solutions Corp., and the IMX500 intelligent vision sensor. Headwaters has already used this service to assist with the use of this visual detection solution at about 500 convenience stores in Japan.

- ▲ Edge AI technology is used for automatically detecting the number of people viewing digital signage and the length of viewing time.



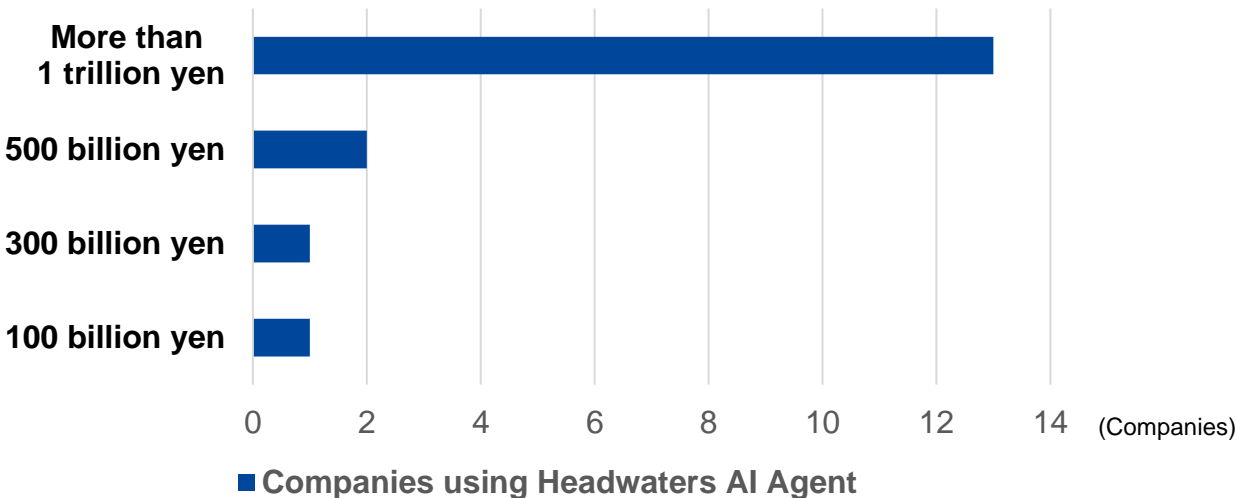
▲ Visual detection solution architecture



Client companies: **17**

Companies with annual sales over 1 trillion yen: **13 (76%)**

AI Agent Performance in FY2024



- 13 (76%) of the 17 AI agent client companies have annual sales of more than 1 trillion yen, giving AI agent a solid position in high-end markets.
- Only 183 of all listed companies in Japan have annual sales of more than 1 trillion yen. Development of new businesses for clients to make these 13 companies loyal clients.
- Already several firm new orders in FY2025 and many sales activities under way, pointing to more growth of this market, mainly for large companies.

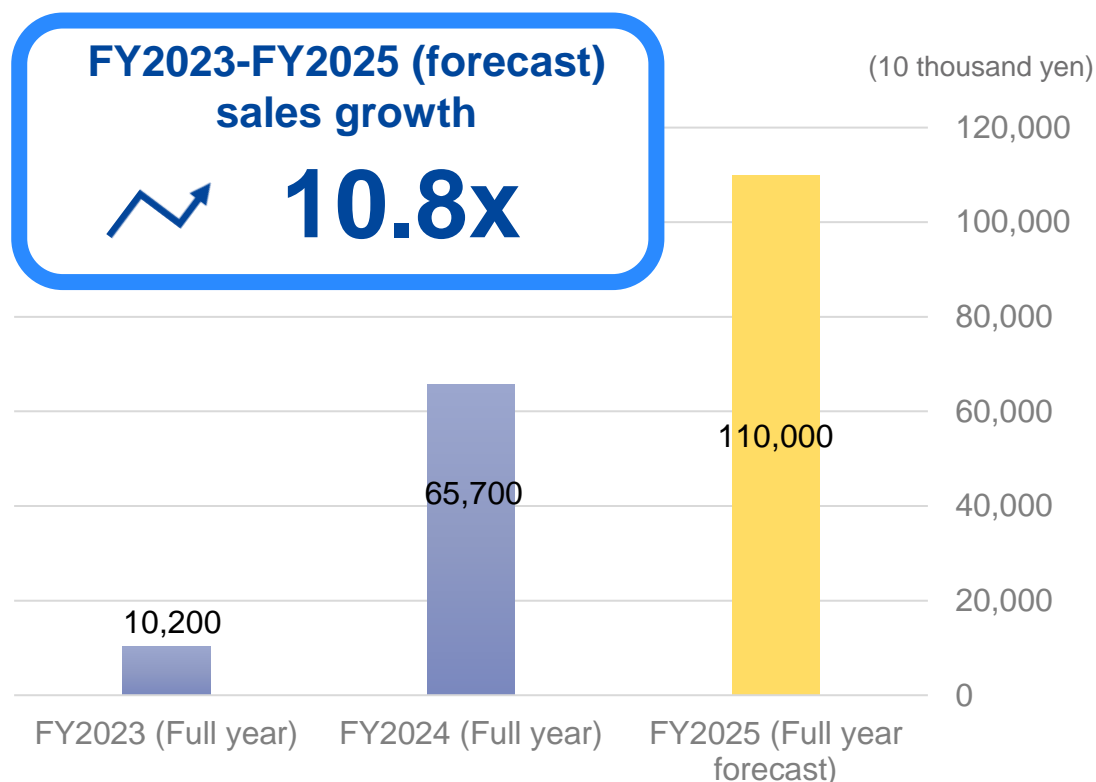
*1 trillion yen companies include companies with consolidated sales above this level.



Generative AI / AI Agent (Performance and Outlook)

Headwaters sales in the generative AI category are climbing steadily as the entire generative AI market grows. In FY2024, generative AI sales were about 650 million yen, which was 45% of total AI sales of about 1,450 million yen. Generative AI sales are expected to increase again in FY2025.

Generative AI / AI Agent Sales



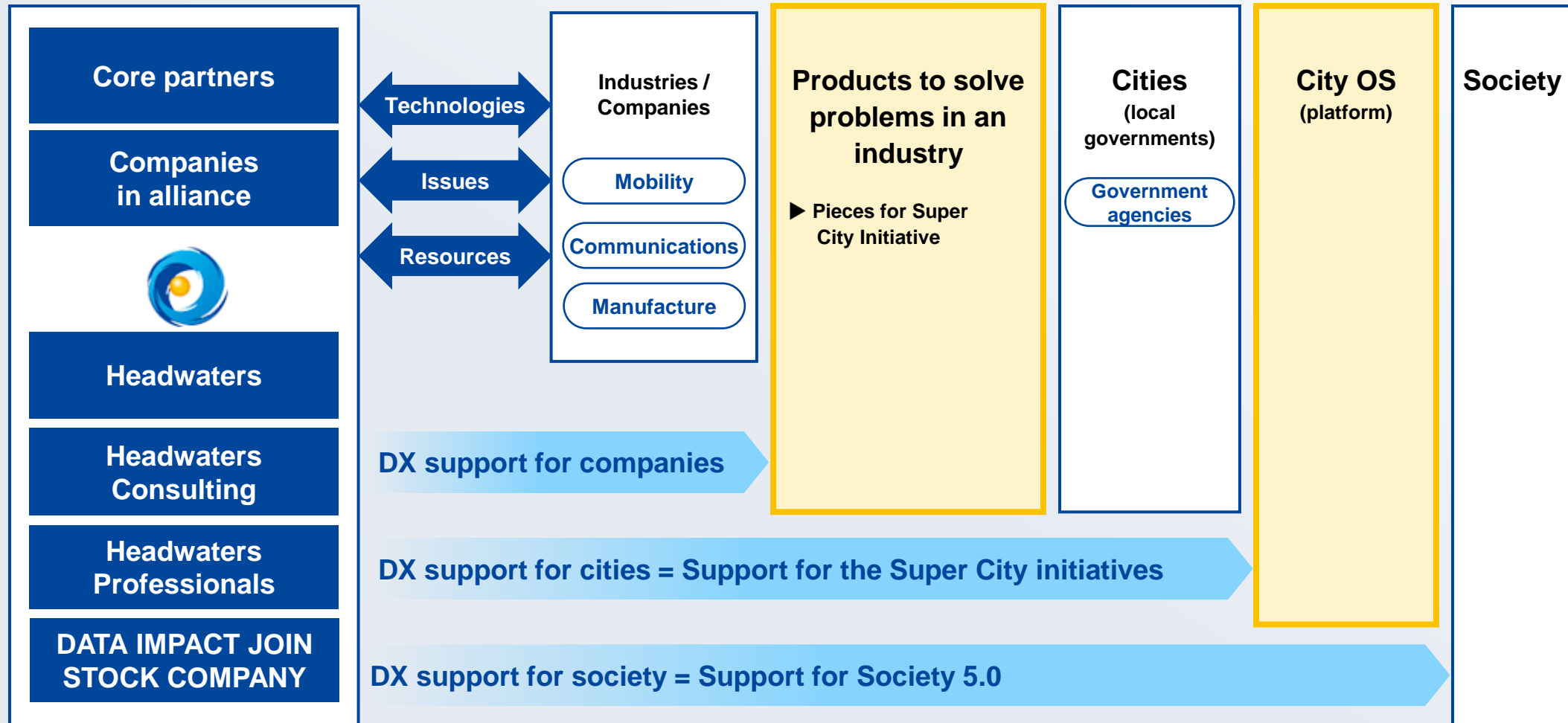
Outlook for the Generative AI Market

- AI agent
 - Able to perform complex tasks autonomously and respond to instructions from people
 - Integration with services with clients
 - Integration with mobile and smart devices
 - Easier to use due to user interface upgrades
 - Investments for advanced technology use involving mobility, manufacturing, communications and other industries
 - Progressing to specialized models
 - More generative AI models for specific applications, such as health care, law, finance and other fields
 - Multi-language models, advancing to code generation domain
 - More progress in content generation automation and business process efficiency
 - Even higher RAG accuracy
 - Better real-time content generation
 - Interactive exchanges due to even faster and smoother responses
- Issues**
Energy efficiency, cost efficiency, ethical problems, privacy issues, need for a platform for the AI decision making process, intellectual property rights, and other issues

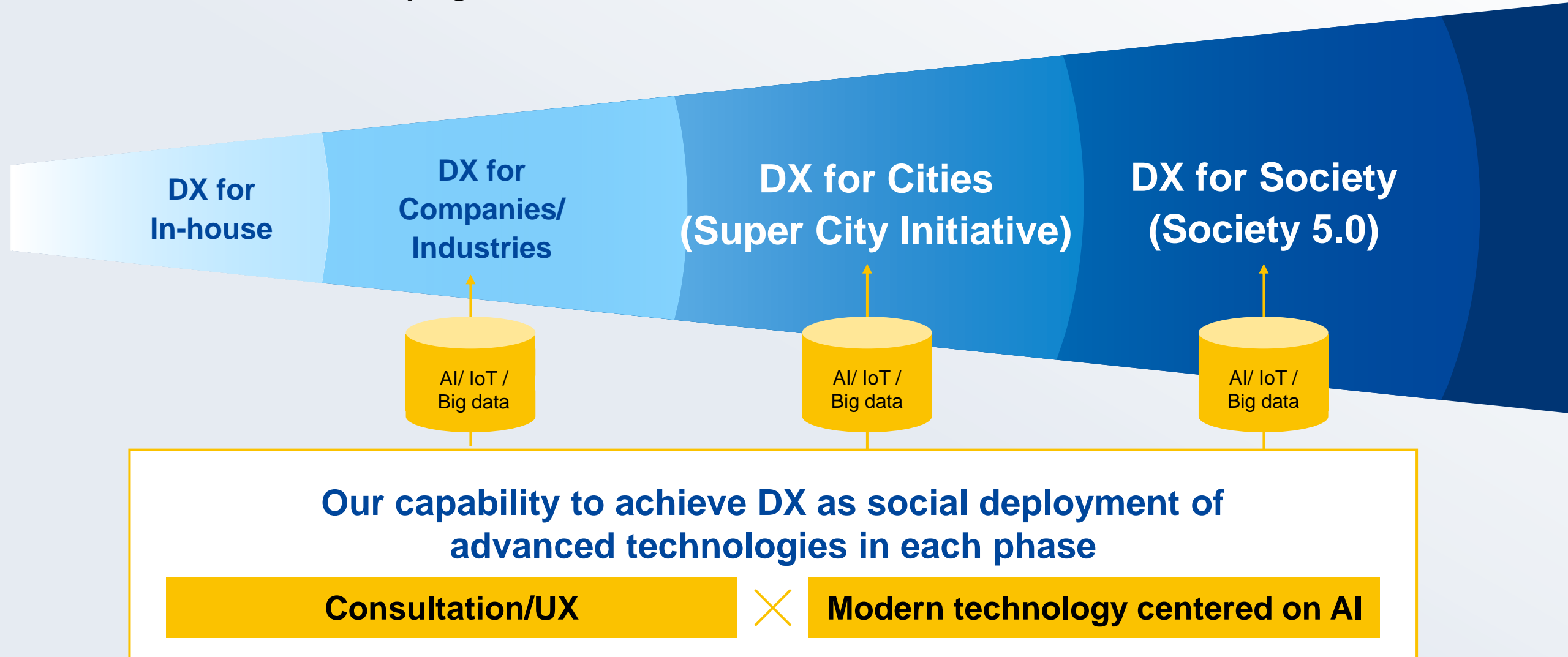
* Forecasts are as of the date of this presentation and may be revised afterward.

► Strategy Map for Society 5.0 (Medium to Long-Term Policies)

Developing a foundation to enable close communication with industries and companies for Society 5.0



Scenario for developing a successful model for our AI and DX-related businesses



— Appendix



FY2024 Main Topics (1)

- Launched “Multimodal AI Lab Service” that provides AI support for complex generation of texts, voices, images and videos for companies using the Azure OpenAI Service (February 15)



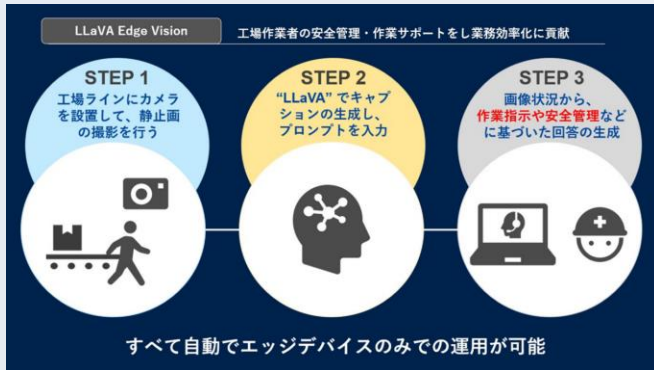
- Headwaters has started providing to companies using the Azure OpenAI Service of Microsoft Japan a Multimodal AI Labo Service for assistance concerning composite generative AI consisting of text, voice, image and video content.
- As generative AI technology advanced, there has been an increase in the use of customized generative AI capable of using the many types of data formats at companies. The importance of multimodal AI x RAG is increasing as a tool for accomplishing this customization.
- Headwaters believes that multimodal AI can be used with a broad range of platforms. Plans include using this AI as a solution that can be used with XR smart glasses, future UX apps and edge AI.

- Certified as Databricks SI consulting partner
–Provision of a support service for the utilization of data & AI incorporating Azure Databricks (February 16)



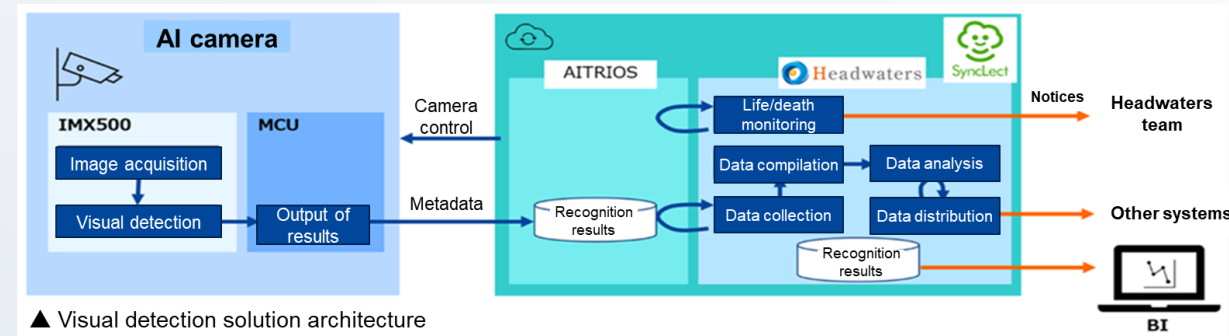
- Headwaters has been certified as an SI consulting partner by Databricks Inc., a global data and AI company. As a certified partner, Headwaters provides a service that assists companies use data & AI that utilizes Azure Databricks. Building large data analysis platforms is essential for more progress with the digital transformation and the use of generative AI. As a certified partner, Headwaters is able to receive support from Databricks concerning the purchase and operation of products.
- Headwaters plans to use this certification for marketing activities with Databricks and the joint development of solutions using data & AI. The goal is creating a more powerful data platform business that can increase the use of generative AI and edge AI. As a certified partner, Headwaters also plans to perform verifications of Azure Databricks Dolly using Azure AI Studio and to build data platforms with Azure Databricks and Microsoft Fabric linkage.

■ Industrial edge and generative AI solution LLaVA Edge Vision developed using Siemens and NVIDIA's advanced technologies (May 21)



- Headwaters has developed an industrial edge generative AI solution called LLaVA Edge Vision. This product uses the SIMATIC IPC BX-35A Box PC of Siemens AG and the NVIDIA® Jetson Orin NX 16GB edge AI device of NVIDIA.
- LLaVA Edge Vision is an edge generative AI solution for factories in the semiconductor, automobile and other industries. Generative AI produces captions for production line camera images. These captions are used to submit instructions and warnings of danger via tablets and smartphones to production line personnel. Providing this information raises the efficiency and safety of production line tasks. Furthermore, the local VLM LLaVA can be used on edge AI to increase the speed and accuracy of generation.

■ Launched a support service for the introduction of the AITRIOS-powered visual detection solution -Support for the implementation at 500 convenience stores (July 18)



- Headwaters has launched a service that assists clients with starting to use a visual detection solution that incorporates AITRIOS™, an edge AI sensing platform provided by Sony Semiconductor Solutions Corp., and the IMX500 intelligent vision sensor.
- There is a growing need for the use of edge AI at stores and factories. As one way to meet this demand, Headwaters began providing a fully integrated support service for companies that operate stores or other businesses at many locations. The service includes AI camera installation, surveillance of various devices, data linkage, business intelligence (BI) visualization and other items.
- Headwaters assisted Sony Semiconductor Solutions with the installation of a visual detection solution at 500 convenience stores in Japan.

- Received the AI Innovation Partner of the Year Award, part of the Microsoft Japan partner of the year 2024 award program (July 31)



- Headwaters received an award in the AI Innovation category of the Microsoft Japan Partner of the Year 2024 awards.
- One reason is the provision of support utilizing the Azure OpenAI Service to more than 30 companies. The award also recognizes the establishment by Headwaters of a platform in a multimodal AI environment and many other accomplishments involving generative AI.
- As a Microsoft AI Innovation Partner, Headwaters will continue to create solutions for advanced data analysis and the use of generative AI for the purpose of supporting the innovation of business operations at client companies.

- Acquired the AI and Machine Learning for Microsoft Azure specialization, a higher partner certification in Microsoft (August 20)



- Headwaters acquired the AI and Machine Learning for Microsoft Azure specialization, a higher partner certification in Microsoft.
- Headwaters received this certification because of many accomplishments involving image analysis and voice recognition using Azure AI services as well as machine learning, edge AI development and the Azure OpenAI Service.
- The next step is to provide support to companies for the use of AI and the digital transformation while further upgrading technologies and knowledge concerning Microsoft Azure AI and machine learning.

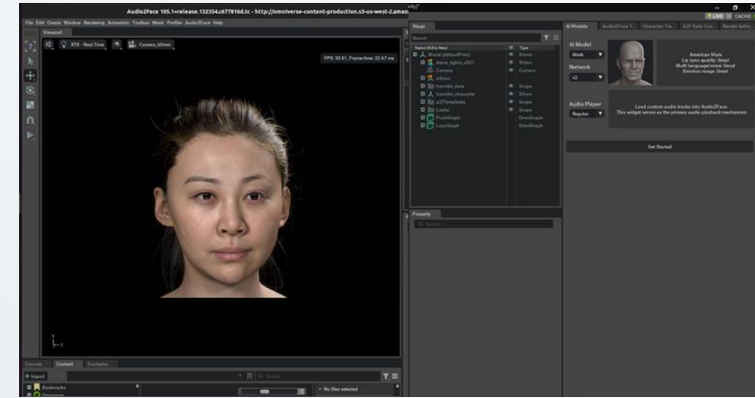
▶ FY2024 Main Topics (4)

- Develop an AI operator in collaboration with Daiwa Securities Co., Ltd.—The transformation of the customer experience (CX) was realized using generative AI—(October 4)



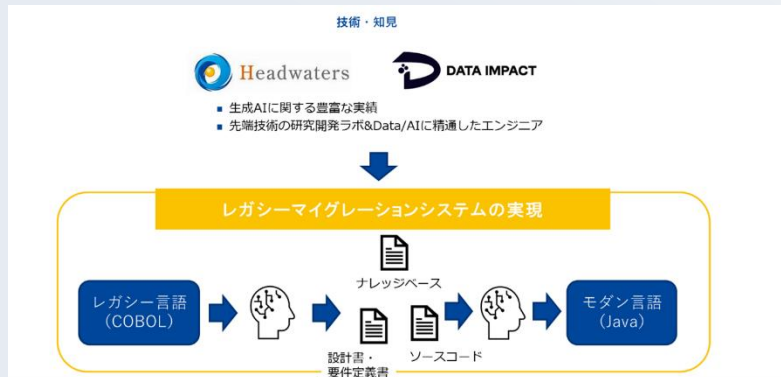
- Daiwa Securities and Headwaters developed the Daiwa Securities AI Operator for the use of AI to answer questions from customers. The service started on October 7, 2024.
- Daiwa Securities expects many more requests for information due to the increase in the number and diversity of investors resulting in part from the start of Japan's revised NISA (Nippon Individual Savings Account) program. The goal is to use generative AI for an even better customer experience.
- Daiwa Securities AI Operator uses a conversational style to supply information extending from financial markets to financial service procedures. This is the first time that a financial services company in Japan is using AI for this purpose.

- Launched a conversational AI digital human service using the NVIDIA NIM ACE micro service (November 15)



- A conversational AI digital human service that uses the NVIDIA ACE NIM microservices has started.
- The service combines a digital human UI with visual and sound data recognition by using multimodal AI to facilitate natural conversations that are like talking to a real person. The digital humans created by this service are suitable for working at stores and information desks.
- The next goals are fine tuning this service by using the NVIDIA NeMo and RTX platforms, the provision of a retrieval-augmented generation (RAG) service, and speeding up the provision of digital human AI solutions that incorporate Microsoft Azure and Unreal Engine Metahuman knowledge.

- Launched a system migration AI agent service in which generative AI products such as Azure Open AI Service Open AI o1 and GitHub Copilot are used during system migration (November 18)



- Headwaters and Data Impact have started the Migration AI Agent Service, which utilizes Azure OpenAI Service OpenAI o1, GitHub Copilot and other generative AI for migration.
- This new service helps solve problems concerning Japan's labor shortage, aging population, slow pace of digitization, and the need for the migration of legacy IT systems. By enabling the use of generative AI for producing design documents and automatically converting code, the new service makes it possible to switch to the cloud efficiently.
- Actions are needed regarding Japan's "2025 cliff," which refers to the slow speed of the digital transformation of companies. The development of migration solutions incorporating generative AI with systems integrators and client companies is expected to help solve problems involving Japan's IT professional shortage and the digital transformation.

- Headwaters Co., Ltd. and BTM, Inc. concluded a capital and business alliance agreement (November 28)



- Headwaters and BTM have established an equity and business alliance for activities in the AI sector, including generative AI and other technologies.
- Combining the AI technology skills of Headwaters with the IT professional procurement skills of BTM based on an even stronger partnership between the two companies will make it possible to meet the growing need in the digital transformation market for the use of generative AI.
- Headwaters and BTM will assist large companies throughout Japan with the use of generative AI and provide Microsoft Azure/generative AI training for people in areas outside Japan's major metropolitan areas. The aim is a framework for collaborative AI support with clients that is dispersed across many areas of Japan.

▶ FY2024 Main Topics (6)

- Strengthened the lineup of generative AI services for the automobile industry—The first product is an AI agent for in-vehicle edge computing (December 2)



- Headwaters has enlarged the lineup of automotive edge AI agents as the first step for creating an even larger selection of generative AI services for companies in the automobile industry.
- As the size and weight of generative AI declines, many projects are under way to develop generative AI models that can operate on edge devices. Demand at automakers is increasing steadily.
- Generative AI is used in automobiles as well as in smart factories and software-defined vehicles (SDV). Headwaters plans to be a source of a broad spectrum of generative AI solutions in the automobile industry, including the personalization of the in-vehicle experience.

- Launched an AI agent services visualization and consulting service for companies considering the introduction of AI agents—The effects of the service included the saving of 1.72 million business hours—(December 27)



- The new Business Process Visualization and Consulting Service for helping companies to start using AI agents encompasses the digitization of business processes and assessments to confirm the companies will benefit from using these agents.
- The service is already producing clear benefits. A life insurance company reduced time needed during one year for business processes by 1.72 million hours and a trust bank cut clerical sales task errors by 60%.
- Headwaters plans to use AI agents in an even broader range of applications and develop solutions for specific industries. Another goal is developing solutions capable of even higher business process efficiency by strengthening relationships with partner companies.

▶ List of Topics (1)

No.	Title	Category
1	Notice regarding changes of Executive Officers	Personnel
2	Assistance for the development of the Cognavi Graduate smartphone app of Forum Engineering	DX
3	Headwaters selected for outsourced processes of the Shibuya City data linkage platform – Working with Microsoft Japan to help build an Urban Data Sharing Platform for Shibuya-ku	Smart City
4	Supported “Introduction of architecture using Azure PaaS” and “Microsoft Teams UX development” in the Asahi Kasei’s conference DX project	DX
5	Support for the Conference DX Project of Asahi Kasei involving use of architecture incorporating Azure PaaS and Microsoft Teams UX development	Generative AI
6	Release of video about Microsoft Ignite Japan session “Use of Generative AI by ITOCHU and Expectations for Azure AI Studio and Fabric”	Generative AI
7	Notice of financial results briefing for individual investors	IR Activities
8	Launched “Multimodal AI Lab Service” that provides AI support for complex generation of texts, voices, images and videos for companies using the Azure OpenAI Service	Product
9	Certified as a Databricks SI consulting partner – Provision of a support service for the utilization of data & AI incorporating Azure Databricks	Partnerships
10	Collaboration with Human Resocia for generative AI use assistance – Joint sales of the SyncLect Generative AI Bot for Power Apps to companies using Microsoft 365	Generative AI/AI Agent
11	Article about generative AI activities in the healthcare industry in the Microsoft Cloud Partner Program Japan Official Blog	Generative AI/AI Agent

▶ List of Topics (2)

No.	Title	Category
12	Launched “Multimodal AI Mobile App Copilot” service to support the development of unique mobile applications equipped with generative AI	Product
13	Start of verification of small language model (SLM) and vision language model (VLM) used on NVIDIA® Jetson Orin™ Nano for generative AI x edge AI	Product
14	Article on the case study site of FastLabel Inc. about the Headwaters project for using edge AI cameras to predict the degradation of food products	Edge AI
15	Headwaters speaks as user of Microsoft Fabric, a new data platform for the generative AI era, at the Microsoft Discovery Day event of Microsoft Japan	Generative AI/AI Agent
16	Advanced RAG service launched using Microsoft Fabric as a data platform for companies who have not been successful using RAG in generative AI operations	Product
17	Headwaters introduced as partner at Microsoft AI Day concerning the digital strategy using generative AI of JR West for the frequent creation of new value and changes for society	Partnerships
18	Introduced SkillDB, a service for visualizing the skills of DX and AI human resources to accelerate human capital strategies	Human Resources
19	Headwaters and ROBOT PAYMENT INC. hold joint investor relations information meeting	IR Activities
20	Industrial edge and generative AI solution LLaVA Edge Vision developed using Siemens and NVIDIA's advanced technologies: Introduced at Ryoyo Electro's 8th AI EXPO TOKYO Spring exhibition booth	Generative AI/AI Agent
21	Announcement on June 5 webinar: Information about starting generative AI projects and training generative AI personnel, using ITOCHU and JR West as examples, regarding the theme of reforming business using the power of generative AI	Generative AI/AI Agent
22	Provision of development support for JR West's Copilot for Ekiin (station personnel) generative AI assistant	Generative AI/AI Agent

▶ List of Topics (3)

No.	Title	Category
23	Microsoft customer story includes information about Headwaters support for ITOCHU, Microsoft Fabric and Azure AI Studio addition of generative AI platform to FOODATA for upgrading the service for quickly obtaining conclusions from the data analysis dashboard	Generative AI/AI Agent
24	Release of minutes of the joint investor relations information meeting with ROBOT PAYMENT	IR Activities
25	Headwaters, Headwaters Consulting, and Headwaters Professionals announced their Silver Certification for being healthy companies	Sustainability
26	June 21: Notice of information meeting for recruiting people with prior work experience – Information about opportunities at Headwaters	Recruitment Briefing
27	Announcement of More Collaborations with Information Strategy and Technology Co., Ltd.: Jointly providing in-house DX support services using generative AI for enterprise companies operating financial and IT businesses	Generative AI/AI Agent
28	Headwaters Consulting: Provided generative AI practice program for beginners during the New Techniques for Working in the Age of ChatGPT Nikkei Business School seminar	Generative AI/AI Agent
29	Launched a support service for the introduction of the AITRIOS-powered visual detection solution (Support for the implementation at 500 convenience stores)	Edge AI
30	Headwaters and Headwaters Consulting were certified as work-life balance promotion companies by Shinjuku ward	Sustainability
31	Launched the customized SLM Fine-tuning service to improve the accuracy of generative AI-based responses by utilizing small scale language models such as Phi-3, Llama-3 and GPT-4o mini	Product

▶ List of Topics (4)

No.	Title	Category
32	Participated in the Ministry of Economy, Trade and Industry's "Demonstration Project to Introduce Housework Support Service as a Welfare Program" – Introduced the "CaSy" housework service as a welfare program to help employees balance life events and career development	Welfare Program
33	Participated in the "Door to the Future (Ashita no Doa)" job experience event for elementary school students – Exhibited a booth to experience creating original songs and characters using AI	Generative AI/AI Agent
34	Seven Headwaters engineers received a 2024 Microsoft Top Partner Engineer Award	Partnerships
35	Received the AI Innovation Partner of the Year Award, part of the Microsoft Japan partner of the year 2024 award program	Partnerships
36	Notice of financial results briefing for individual investors	IR Activities
37	Enhanced the lineup of multimodal AI services for enterprises with respect to the GPT-4o mini model of Azure OpenAI Service	Product
38	Headwaters was certified as a GitHub Technology partner	Partnerships
39	Acquired the AI and Machine Learning for Microsoft Azure specialization, a higher partner certification in Microsoft	Partnerships
40	Headwaters was featured in the October 2024 issue of Diamond Zai's "Strongest Japanese Stocks: Semiconductor and AI-related Stocks" section	Media
41	Provided a generative AI-powered support service for the enhancement of corporate competitiveness in collaboration with Uchida Spectrum, Inc.	Generative AI/AI Agent
42	Release of the video, minutes, and Q&A of "Results of Operations for the Second Quarter of FY2024"	IR Activities
43	Announcement on September 4 webinar co-hosted with Uchida Spectrum, Inc.: Leveraging internal data in the new era by using Microsoft Fabric and Power BI	Seminar



List of Topics (5)

No.	Title	Category
44	Exhibited “Cargo Handling Time Management Solution Using Edge AI Technology” jointly developed with Sony Semiconductor Solutions Corporation at the logistics trade show Logis-Tech Tokyo	Edge AI
45	Yosuke Shinoda, Representative Director of Headwaters, speaks at the Best Venture 100 Conference	Seminar
46	At the “Door to the Future” job experience event, children experienced creating original songs and characters using generative AI	Generative AI/AI Agent
47	Introduction of an AI-based conversational digital human that utilizes the advanced technologies of NVIDIA and Siemens at Ryoyo Electro’s exhibition booth in the Japan Robot Week 2024	Generative AI/AI Agent
48	Announcement on October 4 seminar co-hosted with Uchida Spectrum, Inc.: Microsoft Fabric Hands-on Training	Seminar
49	Strengthen the development of services for Edge VLM, On-device SLM and Copilot PCs by taking advantage of ARM AL Partner certification	Partnerships
50	Joined the NVIDIA Partner Network (NPN)	Partnerships
51	Notice of publication of Analyst Report by Shared Research Inc.	IR Activities
52	Develop an AI operator in collaboration with Daiwa Securities Co., Ltd.–The transformation of the customer experience (CX) was realized using generative AI—	Generative AI/AI Agent
53	Speaker at Columbus DAY, an event of Microsoft Japan's Generative AI Commercialization Support Program	Seminar
54	Supported for the Everyone Can Make an App program of the Tokyo Metropolitan Board of Education	DX
55	Joined the Snowflake Partner Network	Partnerships



List of Topics (6)

No.	Title	Category
56	Concluded a partnership agreement with AI4LIFE, the Institute for Artificial Intelligence Research and Application of Hanoi University of Science and Technology	Partnerships
57	Presentation on “Learning support system with LLM-based material generation and monitoring mechanism” at Japan’s largest workshop on machine learning (IBIS2024)	Seminar
58	Launched a conversational AI digital human service using the NVIDIA NIM ACE micro service	Generative AI/AI Agent
59	Launched a system migration AI agent service in which generative AI products such as Azure Open AI Service Open AI o1 and GitHub Copilot are used during system migration	Product
60	Introduction of an AI-based conversational digital human that utilizes the advanced technologies of NVIDIA and Siemens at the 5th FOODtech Japan Exhibition in Tokyo	Generative AI/AI Agent
61	Headwaters gave a presentation on Daiwa Securities AI Operator Development at Microsoft Japan's “At the Forefront of Generative AI and DX” event	Seminar
62	Headwaters and Microsoft Japan to host a hands-on workshop on “Business Optimization with Generative AI” on November 28	Seminar
63	Concluded a reseller agreement with Elasticsearch K.K to become its partner and strengthened on-premises RAG solutions in the field of generative AI	Partnerships
64	Headwaters Co., Ltd. and BTM, Inc. concluded a capital and business alliance agreement	Capital and Business Alliance
65	Enhanced a generative UI service which automatically generates UI and UX features using Azure Open AI Service	Product
66	Headwaters speaks at Microsoft Japan's “Microsoft Developer Day – Maximizing the Power of Developers with AI” event	Seminar
67	Strengthened the lineup of generative AI services for the automobile industry—The first product is an AI agent for in-vehicle edge computing	Product




















List of Topics (7)

No.	Title	Category
68	<u>Introduction of the use of on-premises conversational AI digital human at SEMICON Japan 2024</u>	Generative AI/AI Agent
69	<u>Cooperated in the management of the “Evolutionary Calculation Competition 2024” as a member of the problem creation committee</u>	Others
70	<u>An interview with one of our engineers was featured on “WAKE Career,” a high-skill career change website for female engineers</u>	Media
71	<u>Supported the construction of the SHIBUYA CREATIVE JUNCTION, a City OS-based website sharing information about various places in Shibuya-ku</u>	Generative AI/AI Agent
72	<u>Our health management initiatives were introduced on “JobQ Town,” an anonymous consultation service specializing in career change</u>	Media
73	<u>Launched an AI agent services visualization and consulting service for companies considering the introduction of AI agents—The effects of the service included the saving of 1.72 million business hours—</u>	Product



Initiatives for SDGs and Targets

Our goal is to help use AI for social progress and harmony among people, communities and nature.

— Energizing regions	Contribute to energizing regions by solving various issues Participation in measures for deepening ties between local governments and companies and for contributing to society	  
— Create new business value	Use new technologies and AI/DX education programs for creating new forms of value in business operations Offer new services that contribute to society	 
— Diversity/Working style reforms	Support diversity and health management, and provide flexibility regarding how people do their jobs Suitable work-life balance including time off for child/elderly parent care	  
— Fair and ethical business activities	Increase soundness of governance, strict adherence to business ethics Extensive information disclosure and dialogues; compliance with code of conduct; more effective Board of Directors	
— Co-creation of value with business partners	Goals are solving social issues and adding more business domains Strategic investments that use alliances and M&A	  
— Protection of the environment	A commitment to supplying services with a small environmental impact and lowering CO2 emissions	  
— Education programs	Support for a diverse workforce with training programs that give people skills to accomplish ambitious goals Personnel and training system reforms to enable people to achieve a broad range of career goals Support for earning Headwaters skill certifications	 

Climate change / Environment

- Expressed support for the TCFD recommendations
- Participated in the TCFD consortium
- Participated in the OSAKA Zero Carbon Foundation
- Participation in the Basic Concept of the GX League
- Developed the “Tabenote” app for reduction of food loss

Working style reforms / Diversity

- Obtained the Silver Certification for being healthy companies

Working style reforms / Diversity

- Certified as a company that complies with the Telework Tokyo Rules
- Certified as a Shinjuku-ku Work-Life Balance Promotion Company
- Obtained the Kurumin certification

Next-generation education / Social responsibility

- Participation in Door to the Future events
 - Booth providing first-hand generative AI experience
- Support for the Everyone Can Make an App program of the Tokyo Metropolitan Board of Education
 - Support for workshops and hackathons at Tokyo public schools
 - Activities to increase digital literacy





Net Sales by Service Category

FY2022 Sales: 1,574,596

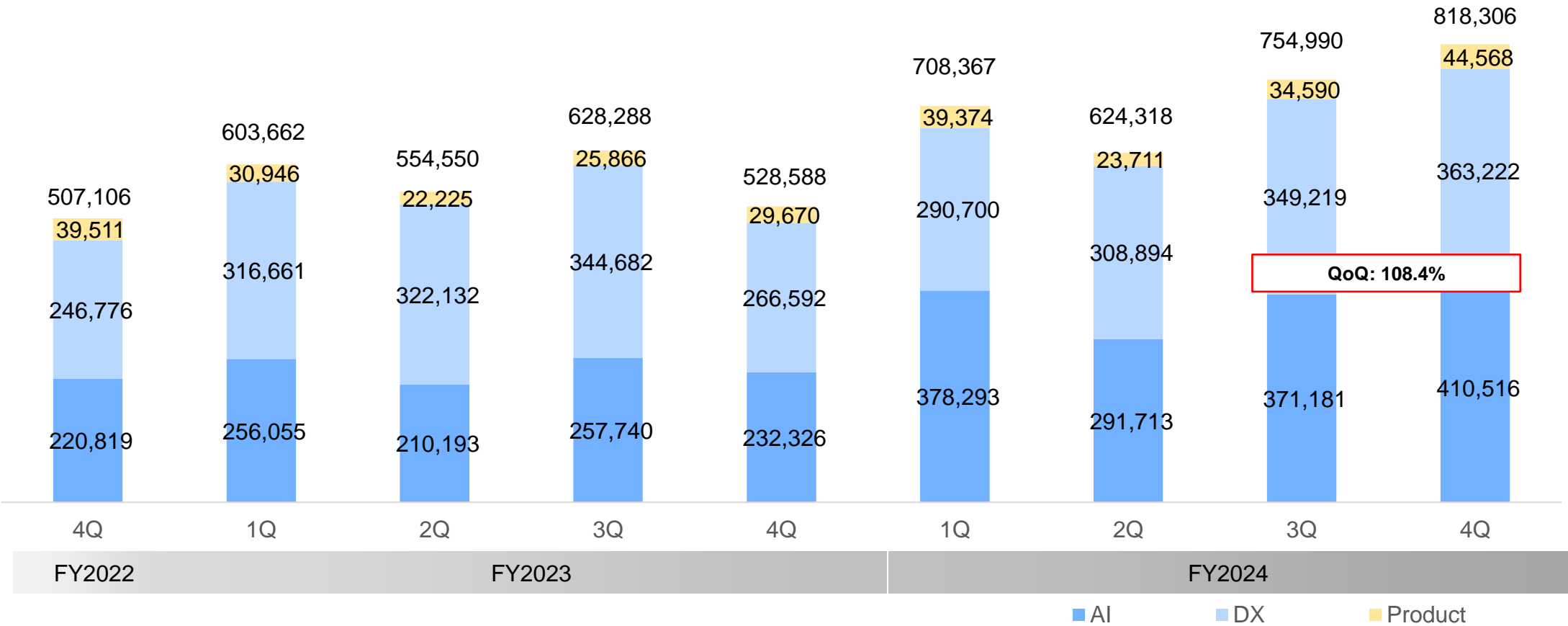
FY2023 Sales: 2,315,088

FY2024 Sales: 2,905,981

(Thousand yen)

YoY for the Quarter: 154.8% / YoY: 125.5%

QoQ: 108.4%





Cost of Sales by Service Category

FY2022 Cost of Sales: 929,060

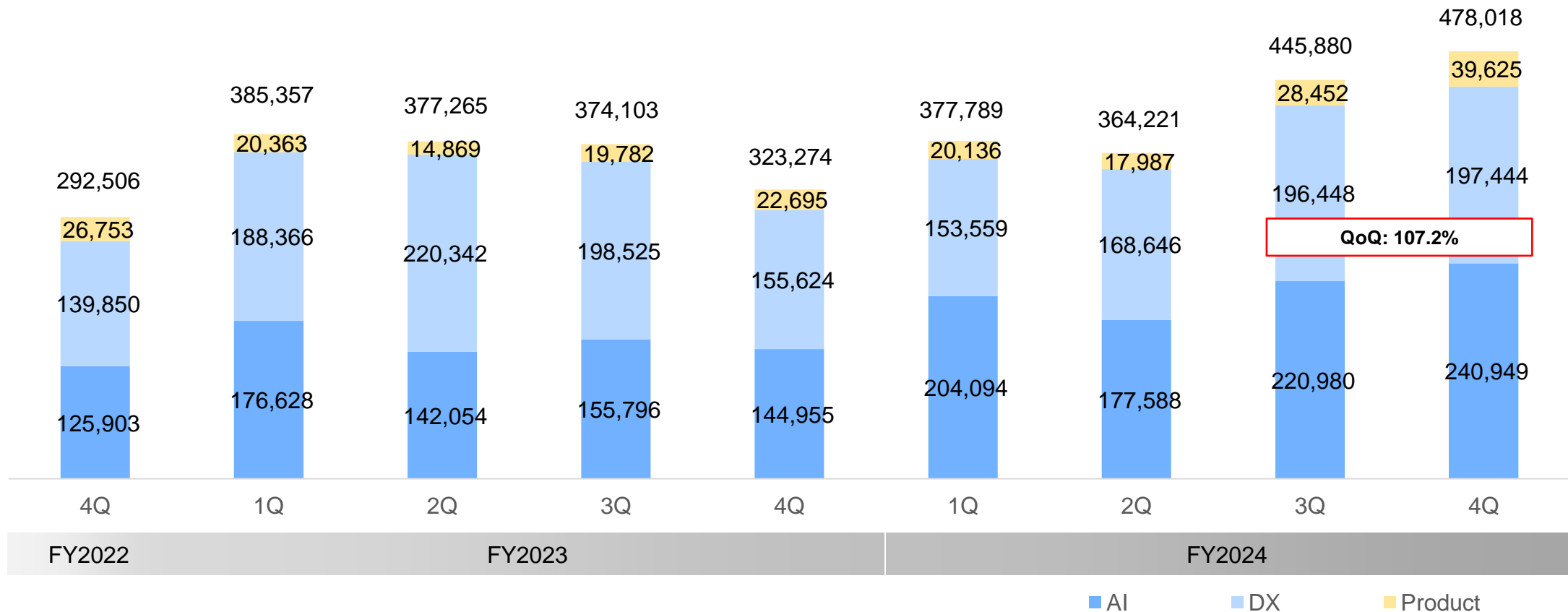
FY2023 Cost of Sales: 1,459,999

FY2024 Cost of Sales: 1,665,908

(Thousand yen)

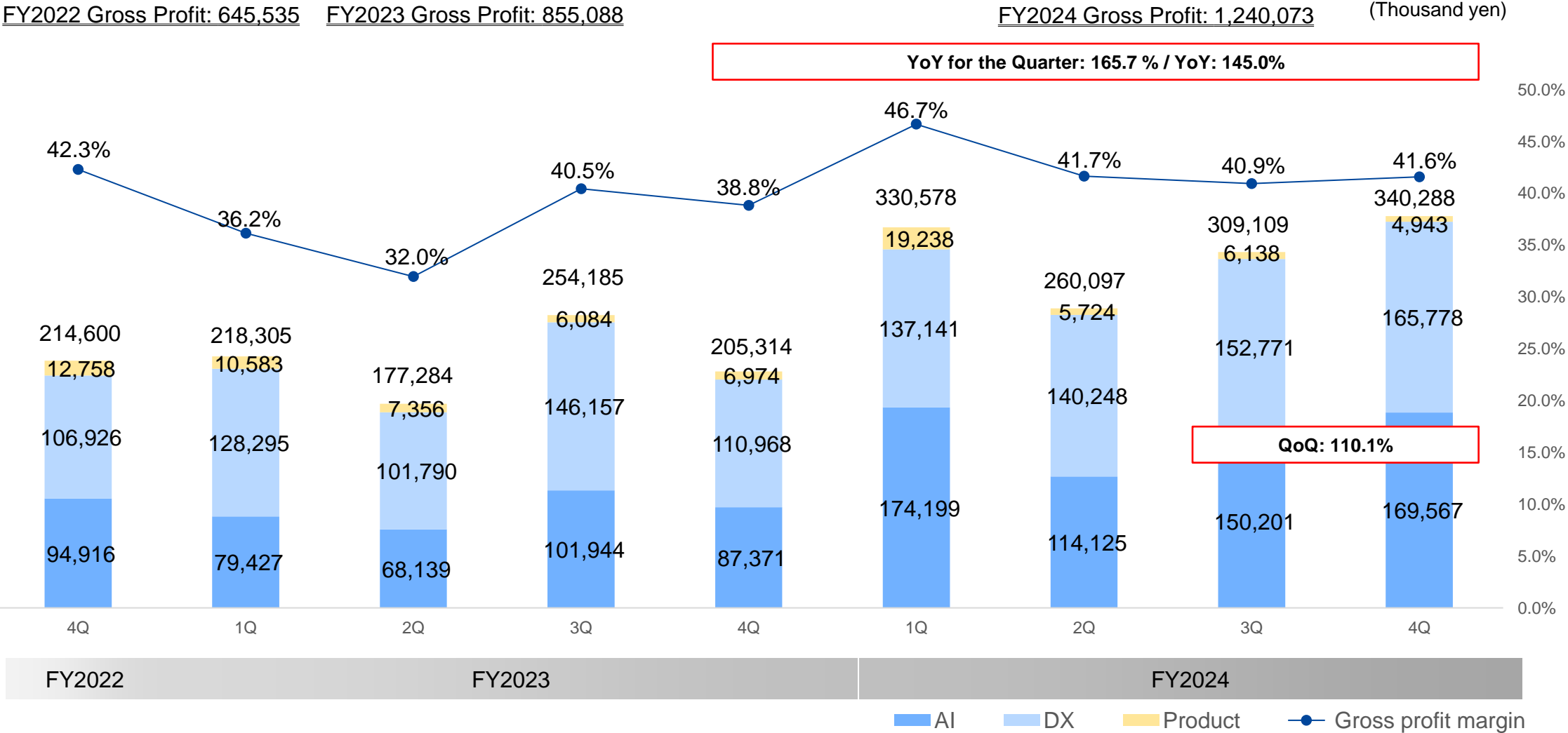
YoY for the Quarter: 147.9% / YoY: 114.1%

QoQ: 107.2%





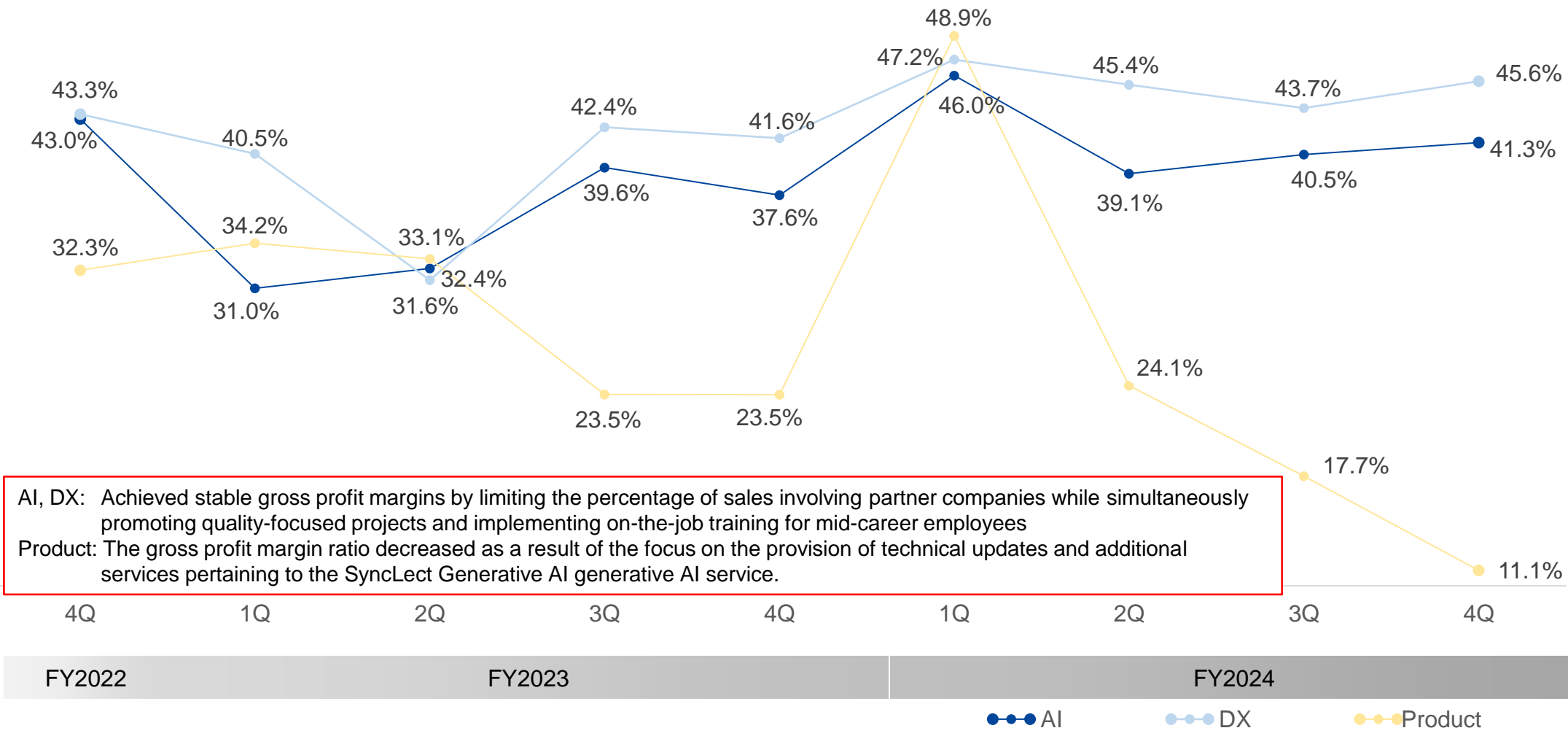
Gross Profit by Service Category



* Because the OPS Services category was discontinued from FY2024, FY2022 and FY2023 gross profit have been allocated to the three other service categories.



Gross Profit Margin by Service Category

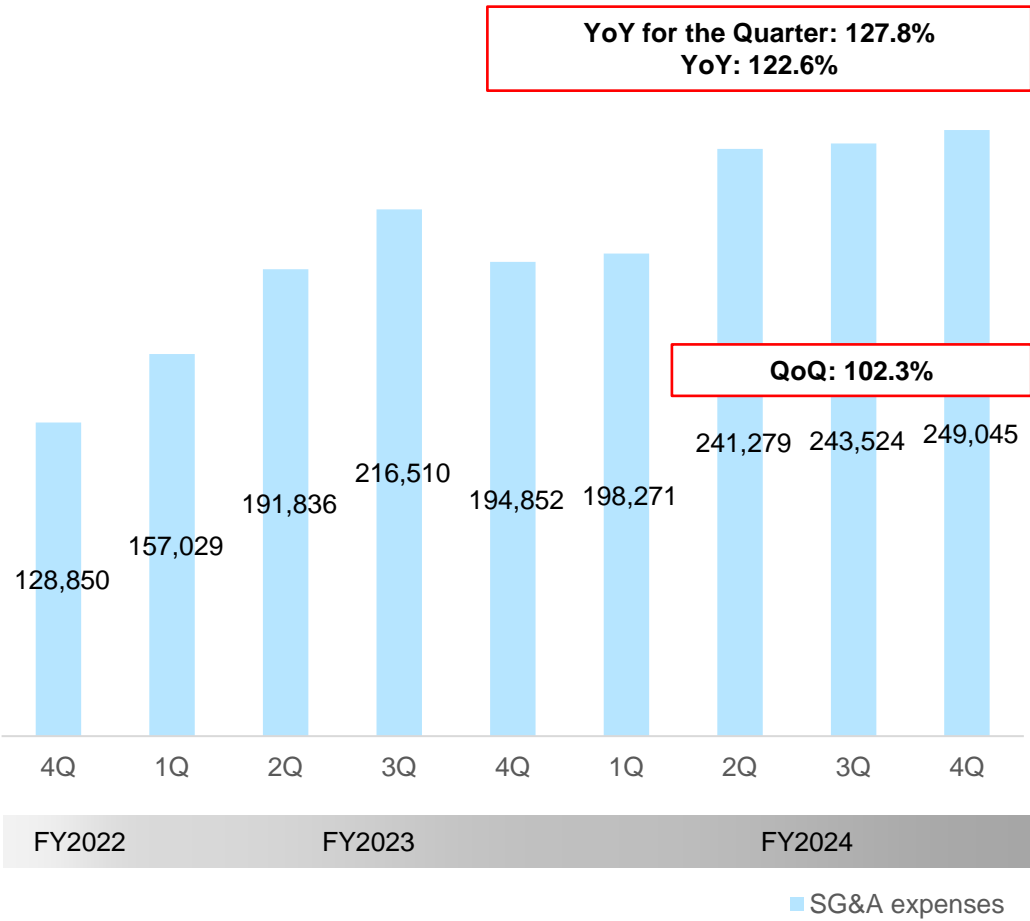




SG&A Expenses, Operating Profit / Operating Profit Margin

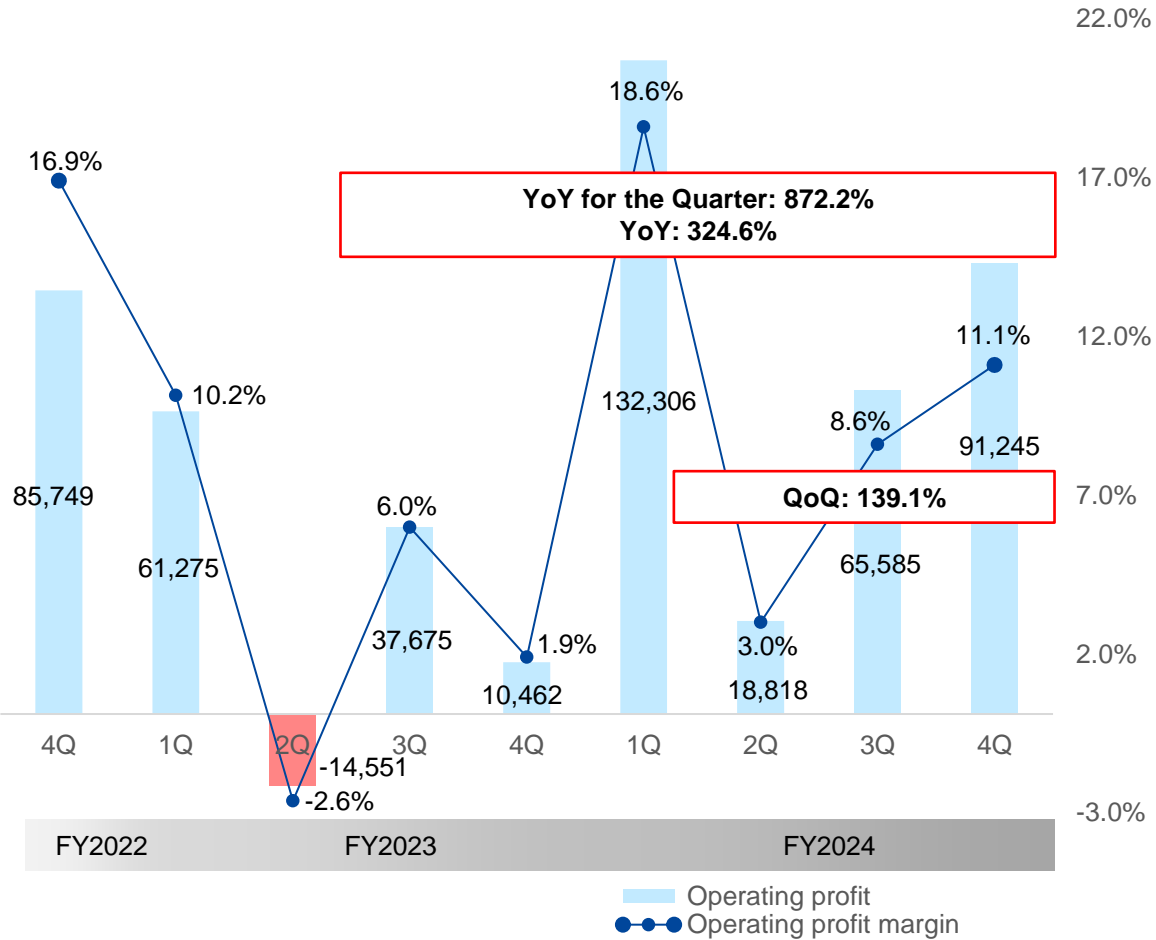
SG&A Expenses (Thousand yen)

FY2023 SG&A Expenses: 760,227 FY2024 SG&A Expenses: 932,119



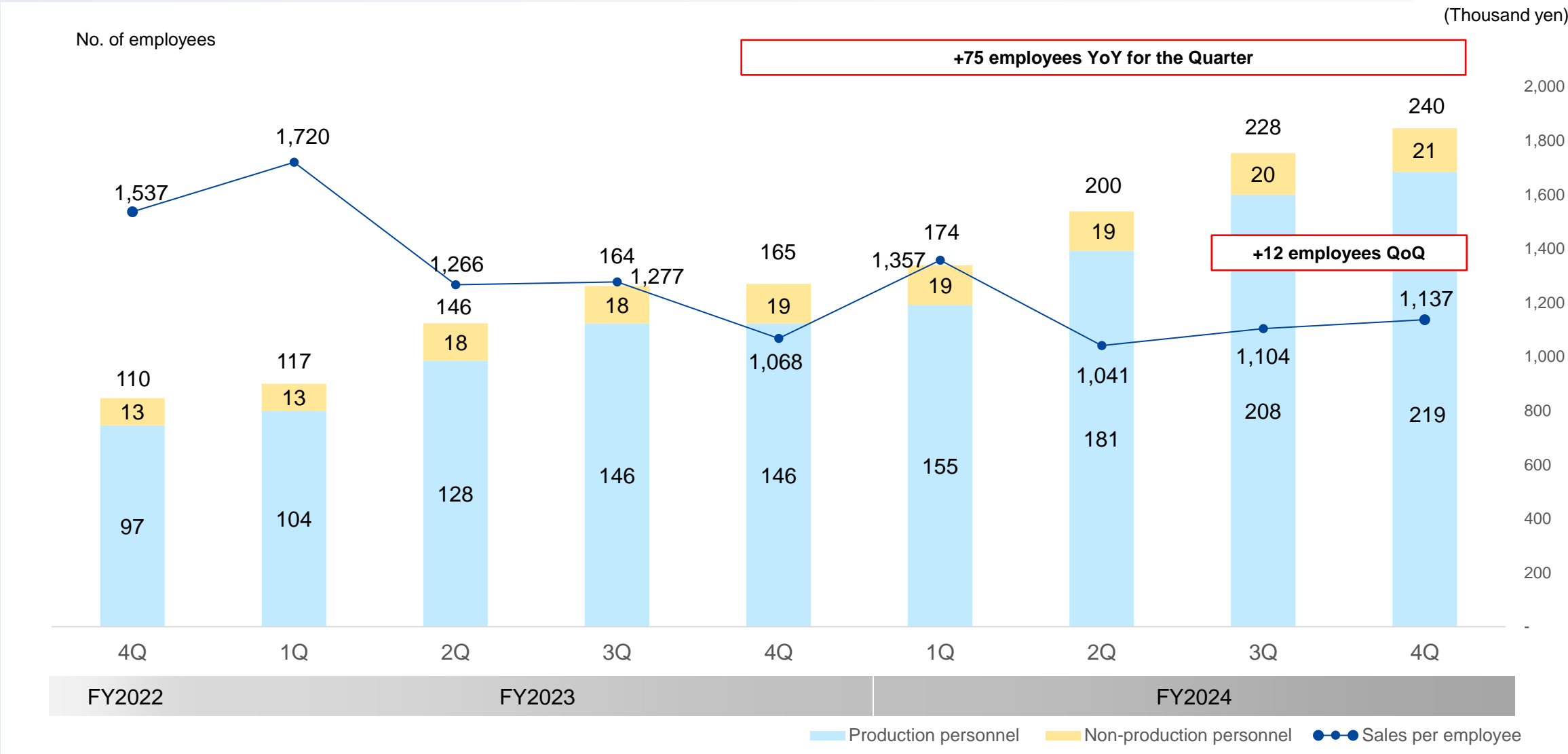
(Thousand yen) Operating Profit / Operating Profit Margin

FY2023 Operating Profit: 94,861 FY2024 Operating Profit: 307,954





Employees, Monthly Sales Per Employee

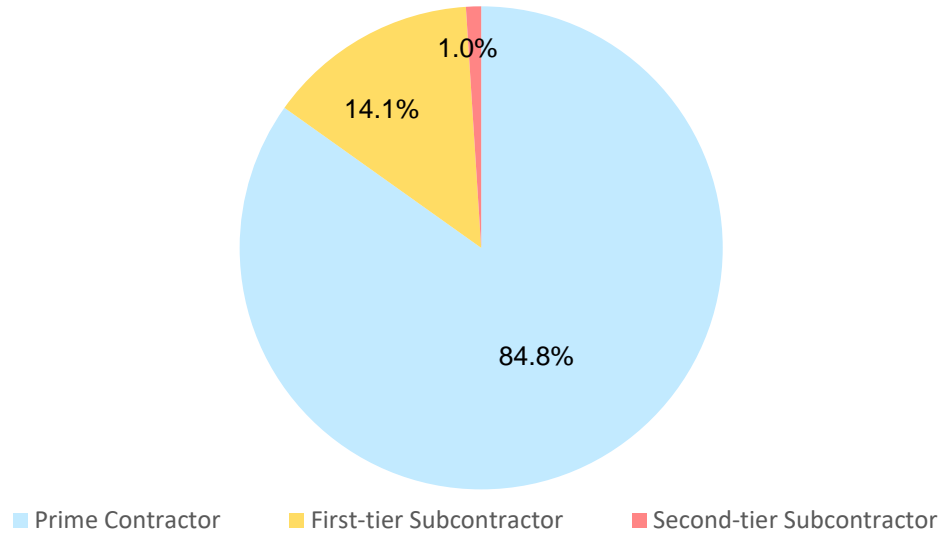


* Contract and part-time employees are not included beginning from FY2024 for the consistency with other disclosed materials.

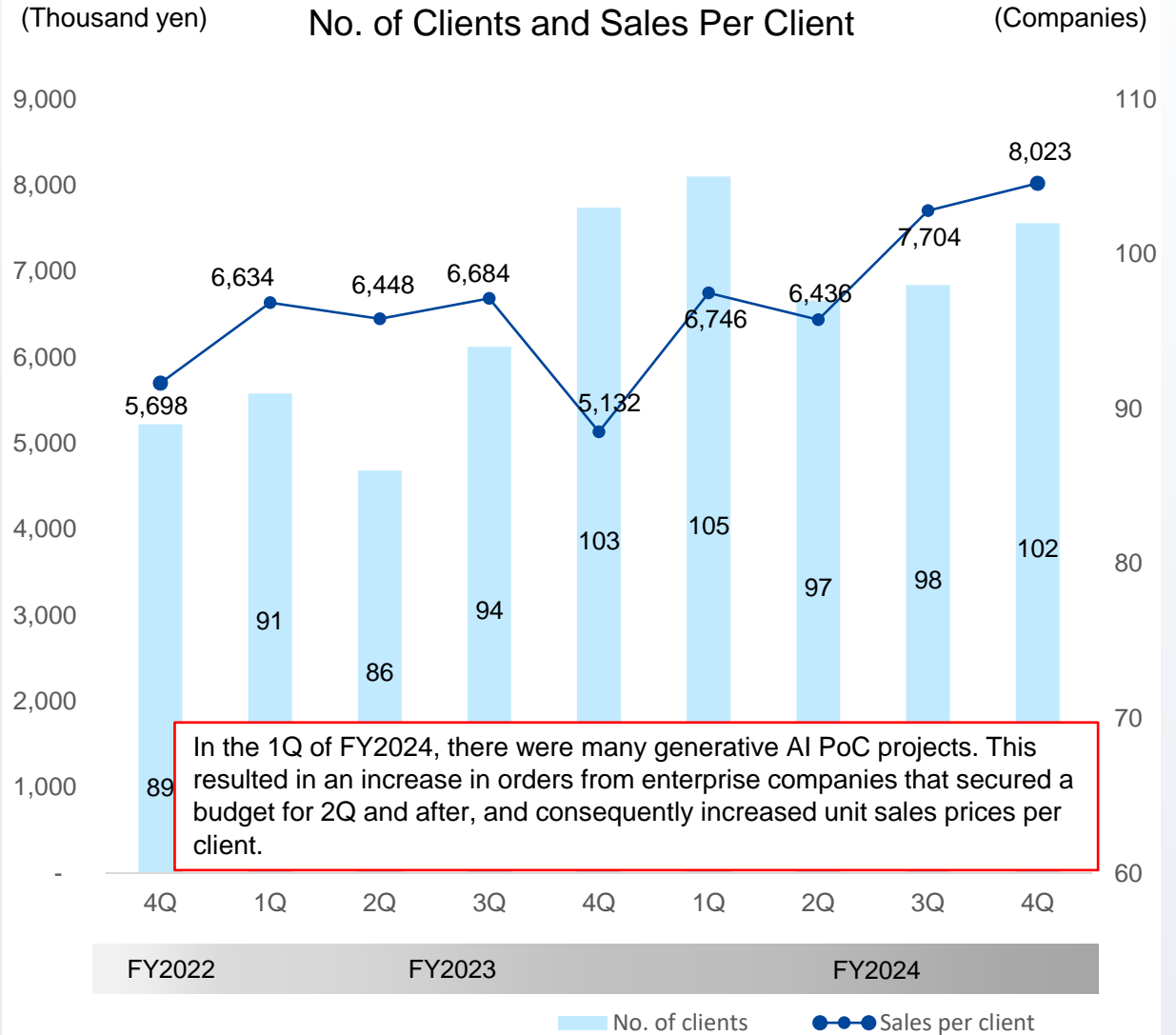


Unit Sales Price, Number of Projects and Contractual Chain Status by Service Category

Pct. of the Contractual Chain (FY2024 cumulative)



- Direct contracts with clients account for most of contracts.
- In the alliance strategy, there are several alliance patterns such as becoming first-tier contractors to strategically develop customers through collaboration with system integrators and consulting companies, in addition to concluding contracts directly with customers.
- For enterprise companies, there may be a contract through a system subsidiary or a contract with a group company, in which case it is categorized as the first-tier subcontractor.

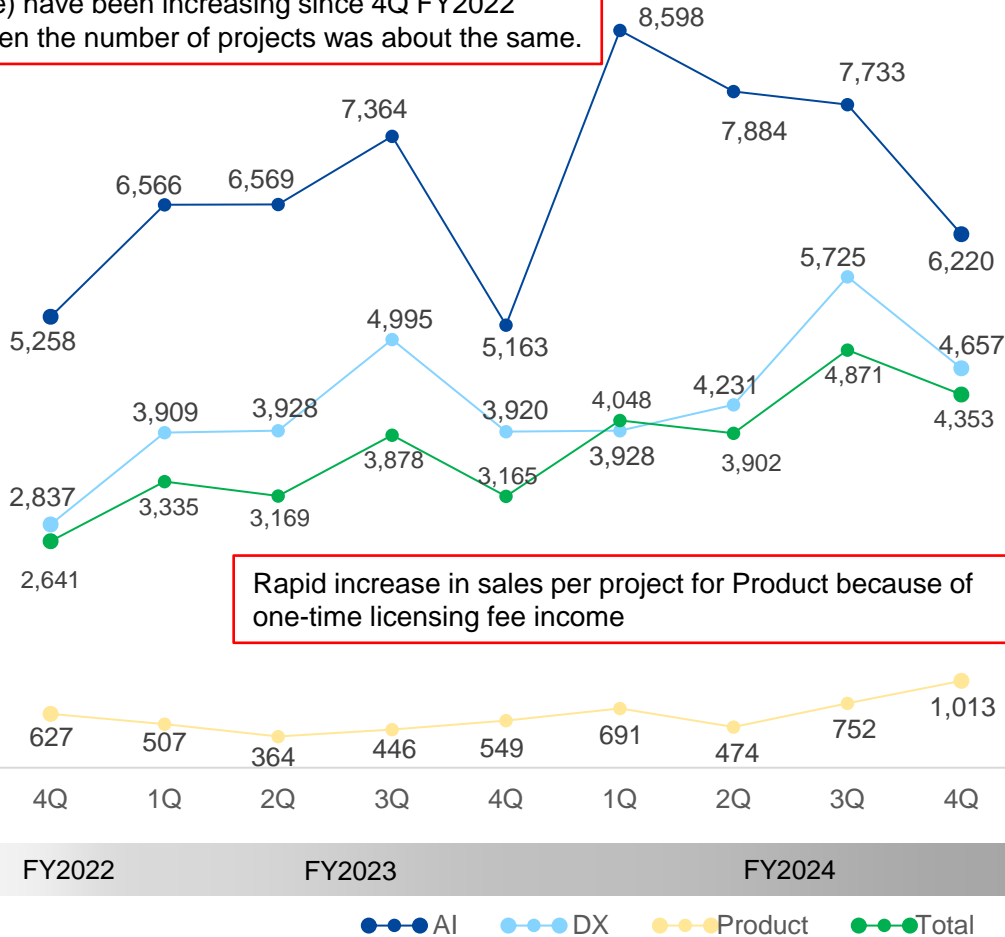




Unit Sales Price, Number of Projects and Contractual Chain Status by Service Category

Unit Sales Price by Service Category (Thousand yen)

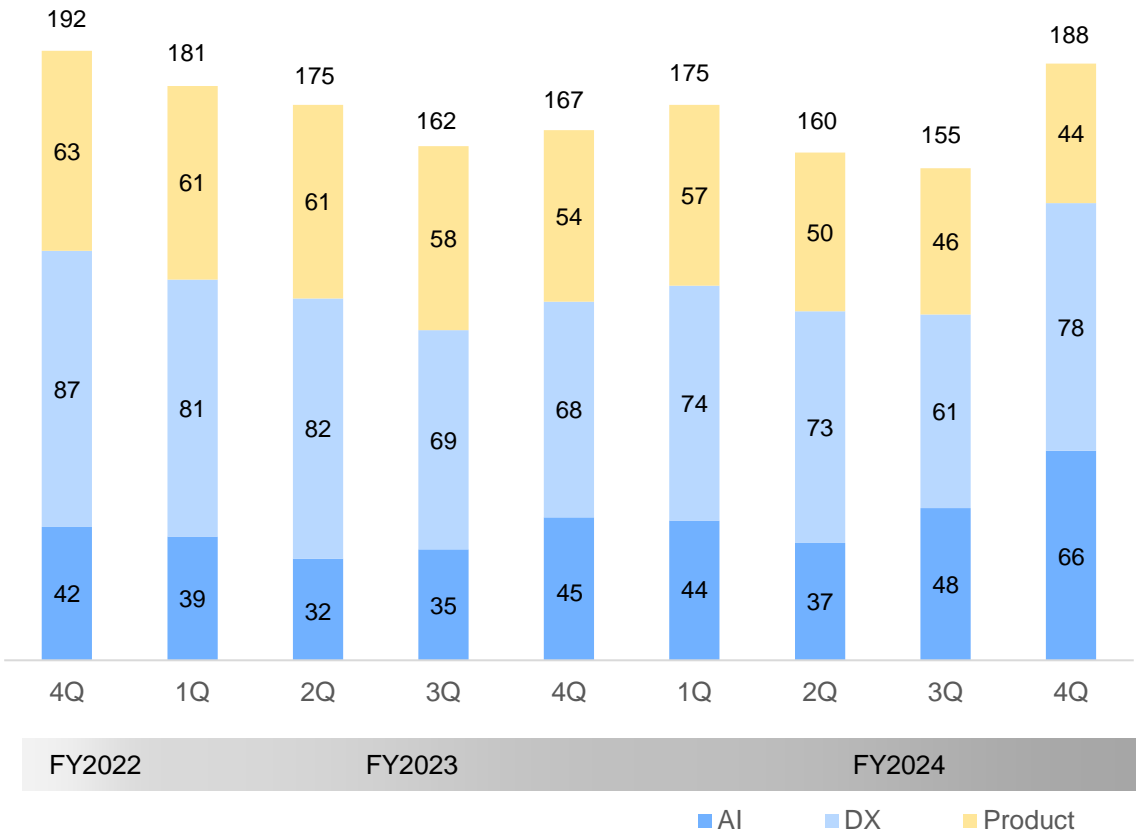
For AI and DX, sales have increased year-on-year in every quarter. Even the total sales (green line) have been increasing since 4Q FY2022 when the number of projects was about the same.



Rapid increase in sales per project for Product because of one-time licensing fee income

No. of Projects by Service Category

Headwaters became first in the Microsoft AI category following receipt of the Microsoft Japan Partner of the Year 2024 award. Calls from prospective customers and new orders increased. There were positive effects for AI orders as well as for DX orders.



* Because the OPS Services category was discontinued from FY2024, the number of OPS projects in FY2022 and FY2023 has been allocated to the three other service categories.



Notes on Forward-looking Statements

- This document contains outlooks, future plans and management goals related to Headwaters. Descriptions regarding these forward-looking statement are based on assumptions made at the current moment about future events and trends, and there is no guarantee that these assumptions are accurate. Various factors may cause actual performance to significantly differ from what is described in this document.
- The figures in this document represent consolidated figures for the entire group, including Headwaters Consulting, Headwaters Professionals and DATA IMPACT JOINT STOCK COMPANY.
- In this document, numerical comparisons are presented in the following three categories.
 - **QoQ:** A comparison between the figures of the previous quarter and the current quarter
 - Comparison between figures of 3Q FY2024 and 4Q FY2024
 - **YoY:** A comparison between the cumulative figures of the previous fiscal year and the current fiscal year
 - Comparison between figures of FY2023 and FY2024
 - **YoY for the Quarter:** A comparison between the figures of the corresponding quarter for the previous fiscal year and the current fiscal year
 - Comparison between figures of 4Q FY2023 and 4Q FY2024
- Unless otherwise specified, the financial information in this document is based on generally accepted accounting principles in Japan.
- Information regarding companies other than Headwaters is based on generally known information.