

Financial Supplementary Materials

for FY2024

Headwaters Co., Ltd.

February 14, 2025 Securities code: 4011



FY2024 Consolidated Financial Results Overview

(Thousand yen)

(Thousand yen)

	FY2023 Results		FY2024 Results			
		Pct. to net sales (%)		Pct. to net sales (%)	YoY change (%)	Full-year forecast achievement rate* (%)
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			

* The full-year forecast achievement rate has been calculated based on the revised forecasts that were announced in the November 14, 2024 notice regarding the revision of the full-year earnings forecasts.

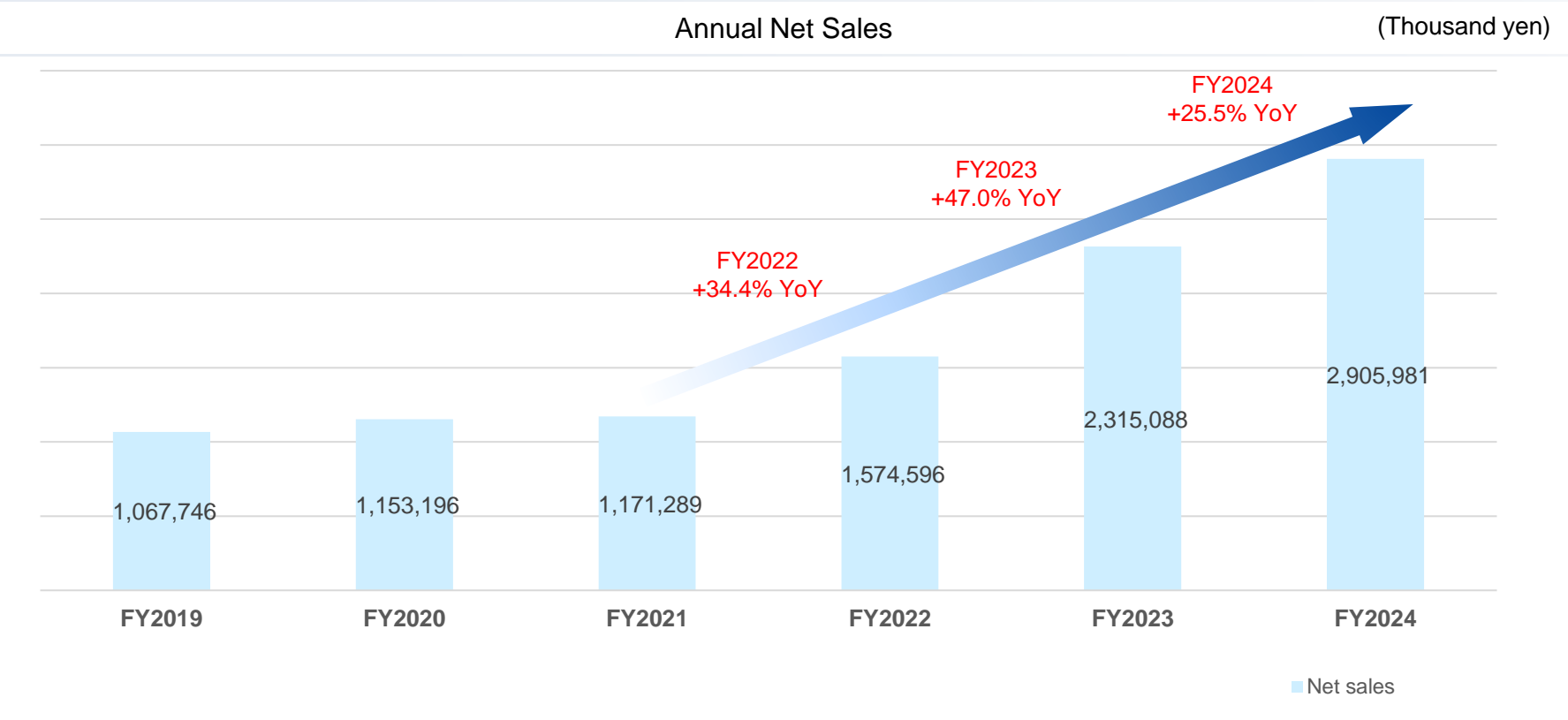


FY2024 Key Performance Indicators

Sales, Operating Profit, Recruiting

Net Sales

- Sales, which is a key performance indicator, **increased 25.5% YoY** 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
 - Net sales from generative AI projects grew sharply to 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.

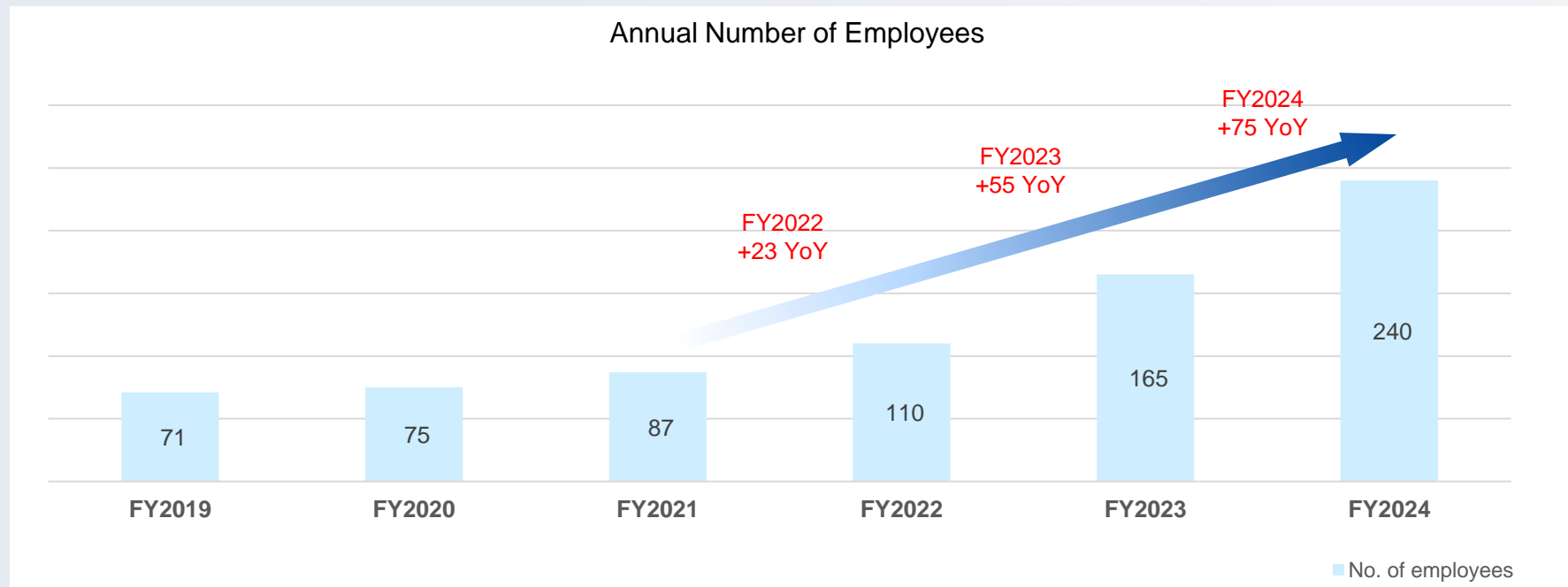


Operating Profit / Ordinary Profit

- Operating profit up 224.6% YoY and ordinary profit up 268.7% YoY, both **new records**
→ A gross margin of 42.7% and an operating profit margin of 10.6% were achieved by increasing unit sales prices and controlling the percentage of sales involving partner companies.
- SG&A expenses increased 22.6% YoY due to investments related to recruitment and personnel expenses.
- A gain on valuation of derivatives slightly less than 50 million yen was accrued as non-operating income due to certain stock acquisition efforts linked to capital and business alliances.

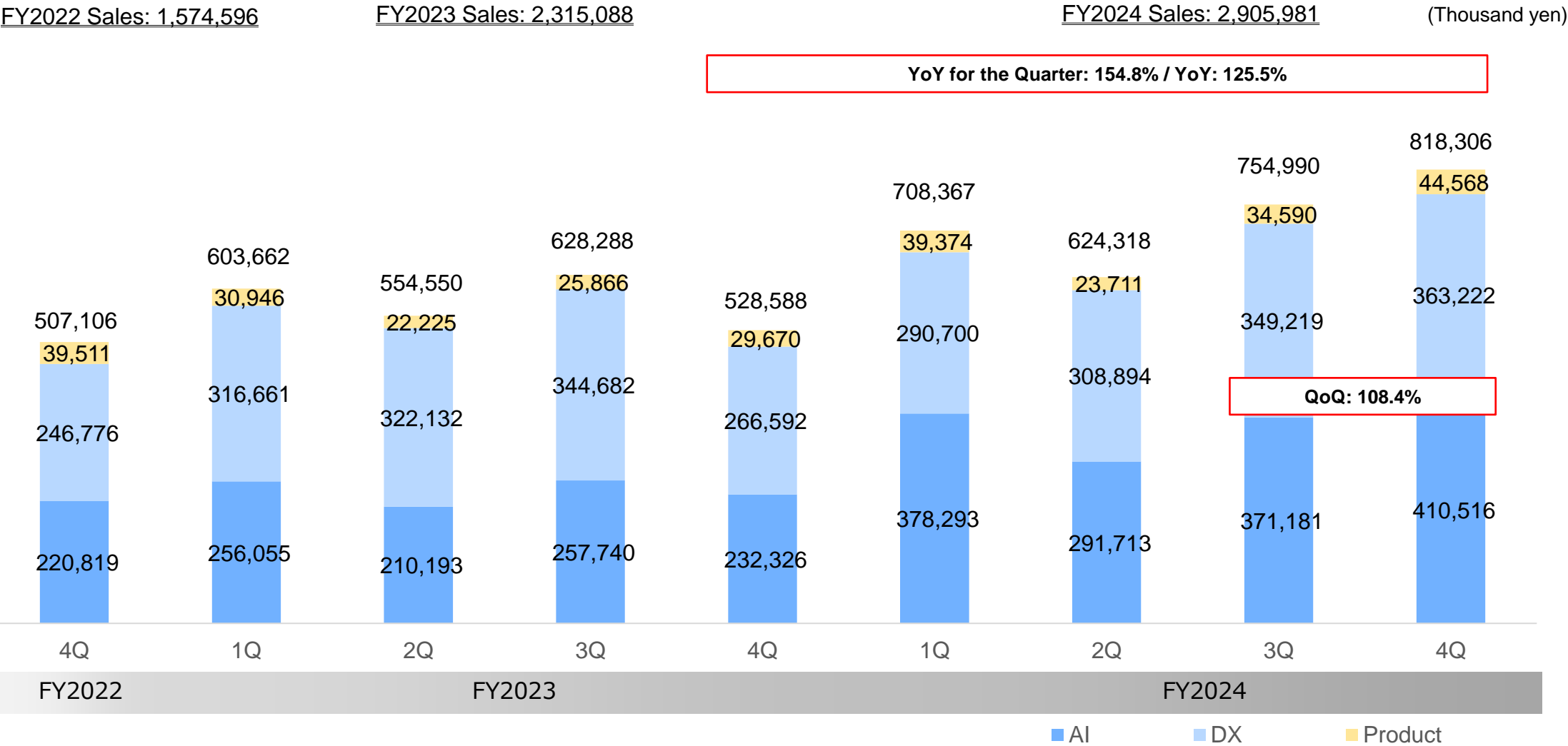
Recruiting

- **Net increase of 75 employees** compared to the annual plan of a net increase of 60 employees
→ Number of employees as of December 31, 2024: 240 *Excluding contract and part-time employees
→ Number of resignations: 19; employee turnover rate: 11.0% *Turnover rate at three group companies in Japan: 9.0%





Net Sales by Service Category

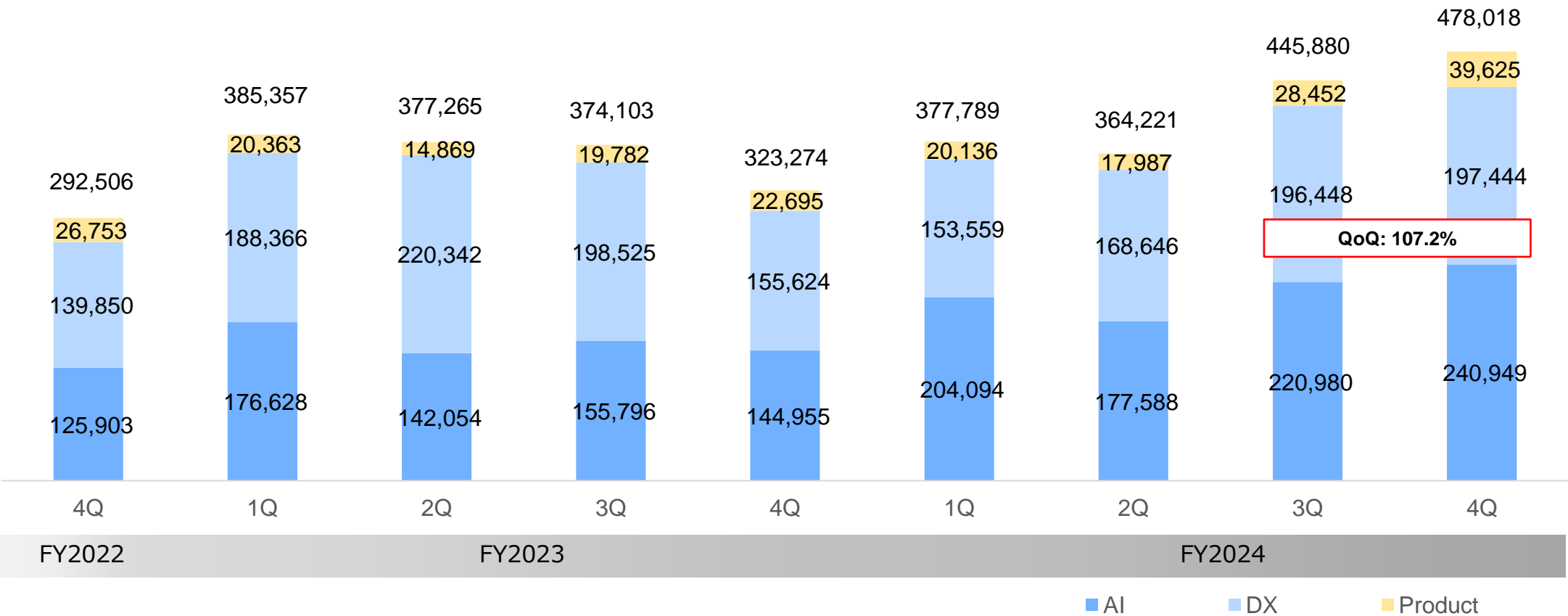


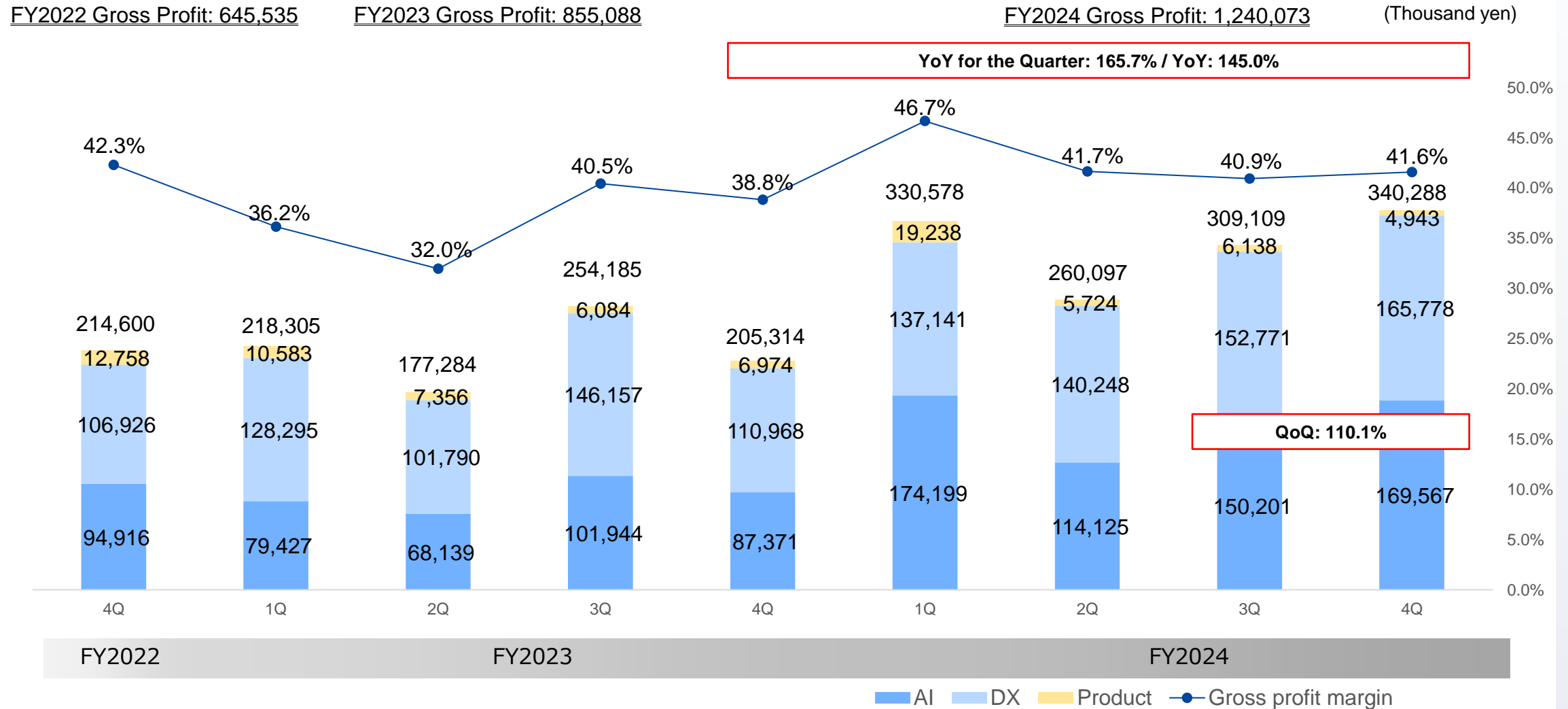


Cost of Sales by Service Category

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%

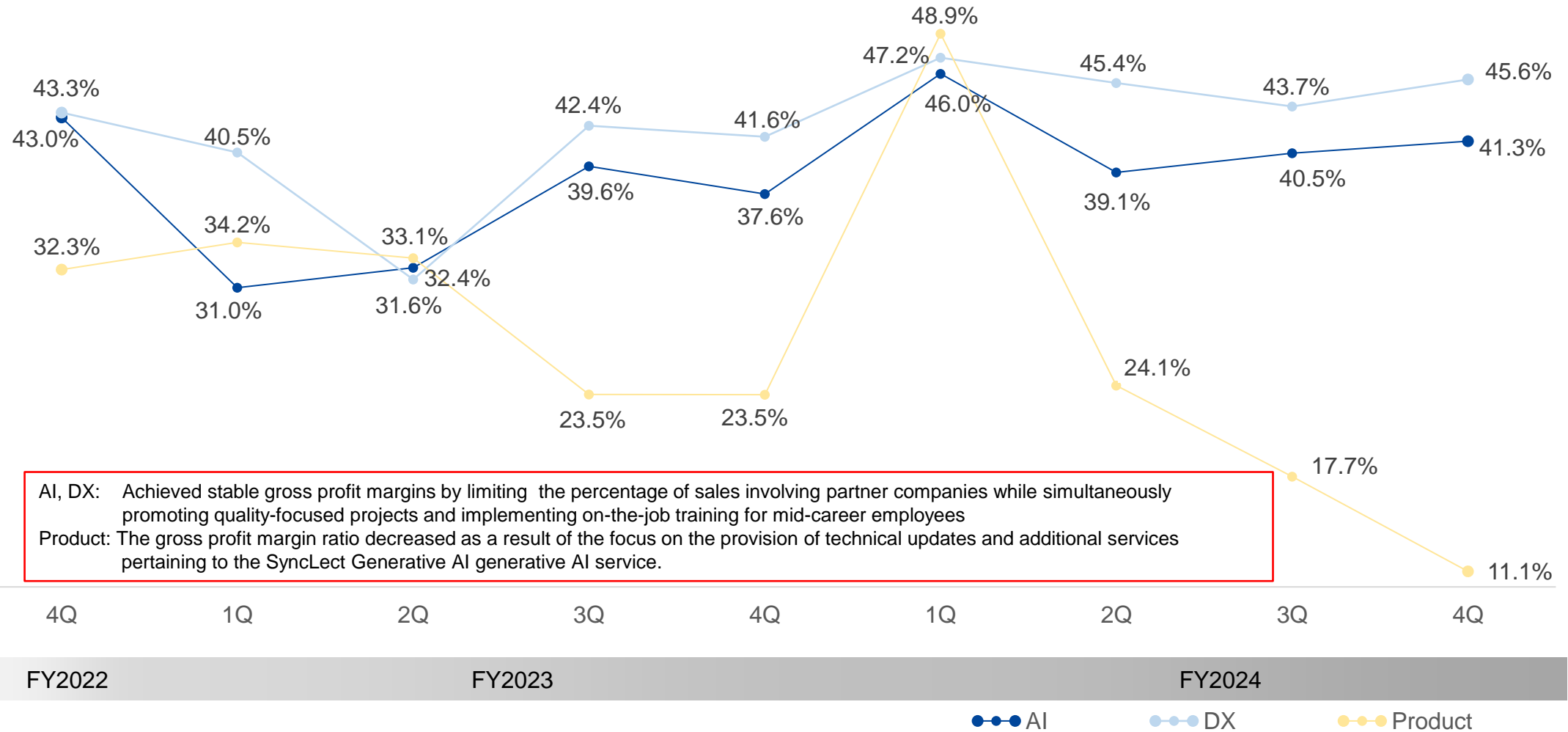




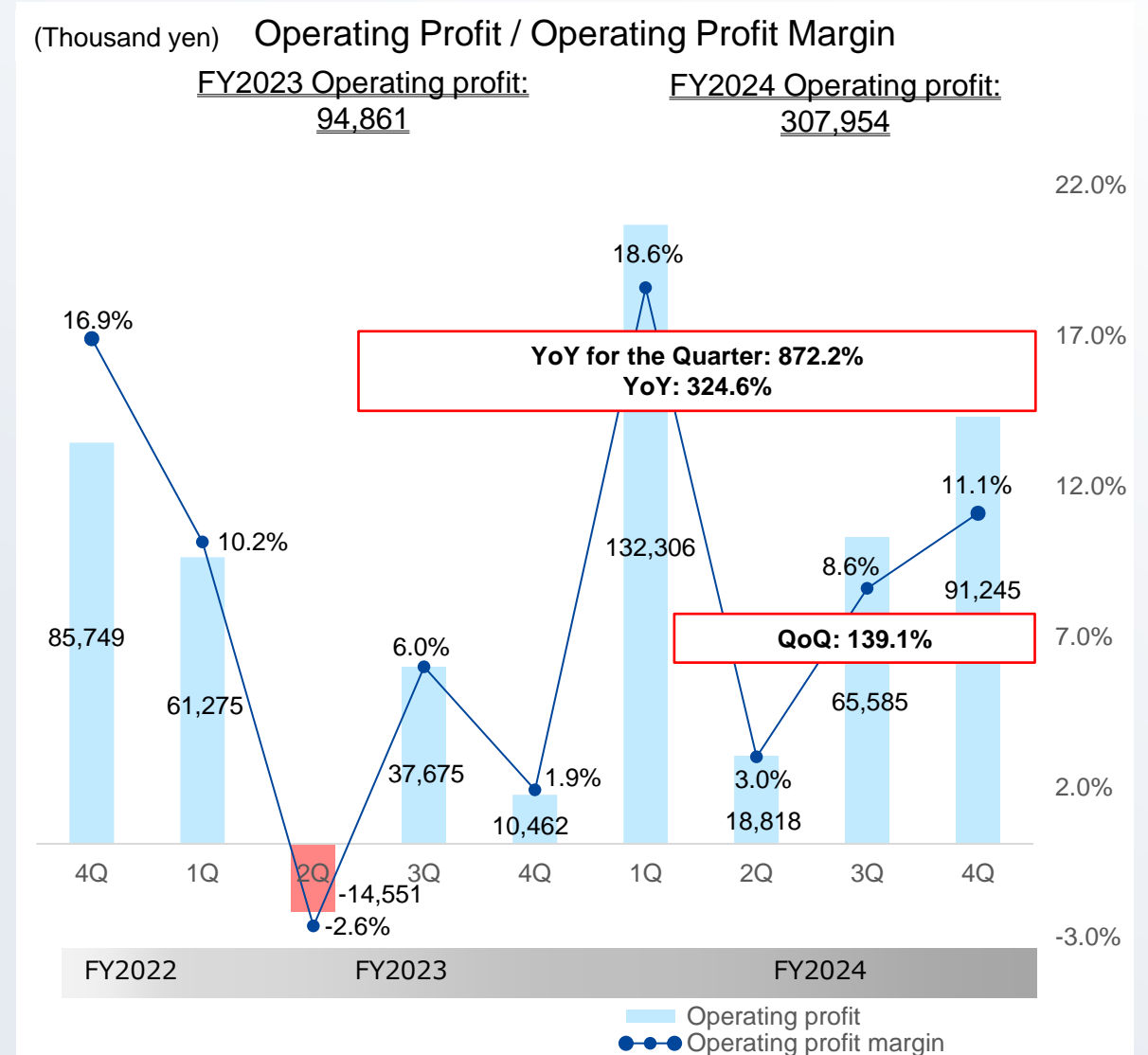
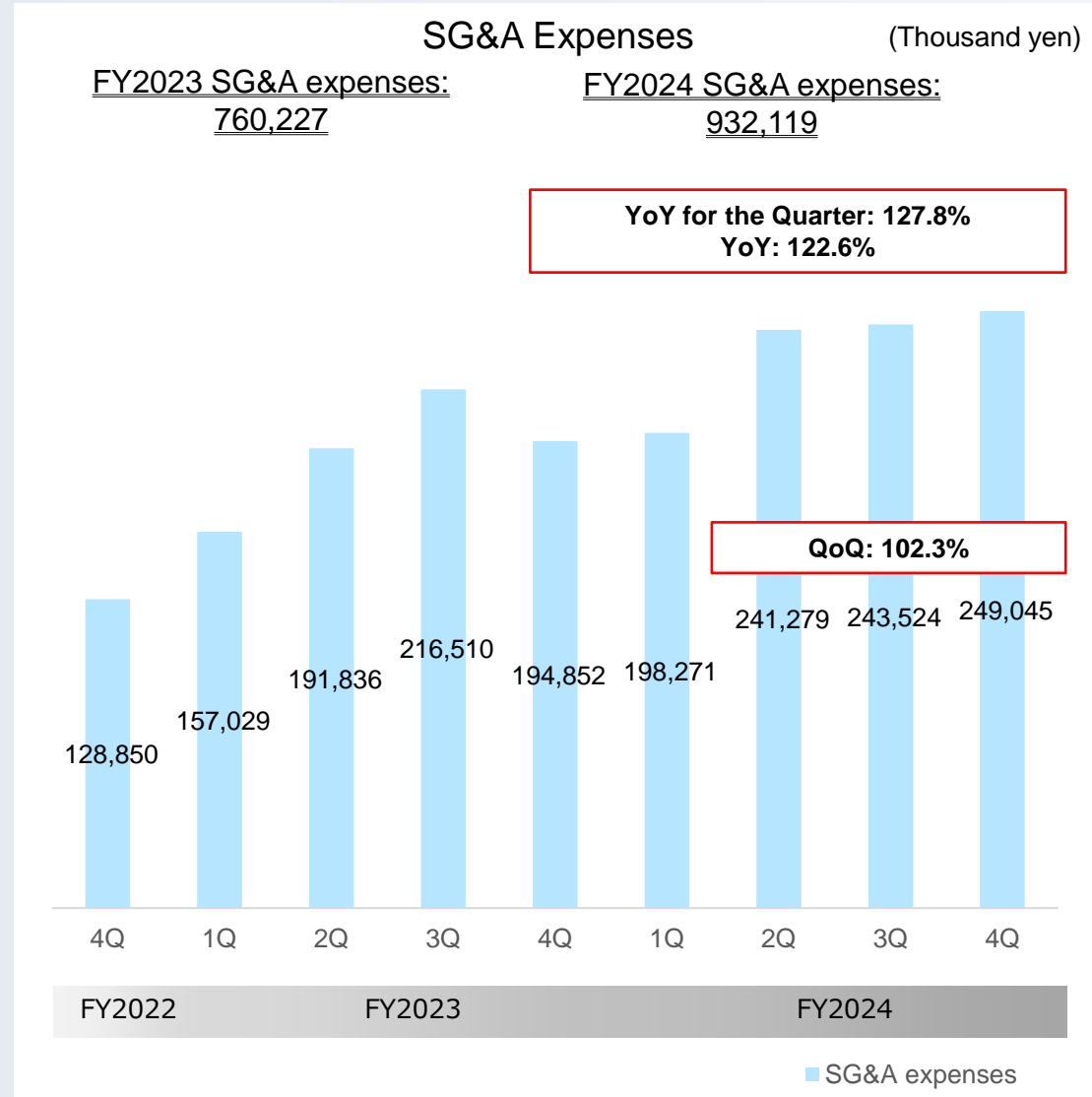
* Because the OPS Services category was discontinued from FY2024, FY2022 and FY2023 gross profit have been allocated to the three other service categories.



Gross Profit Margin by Service Category

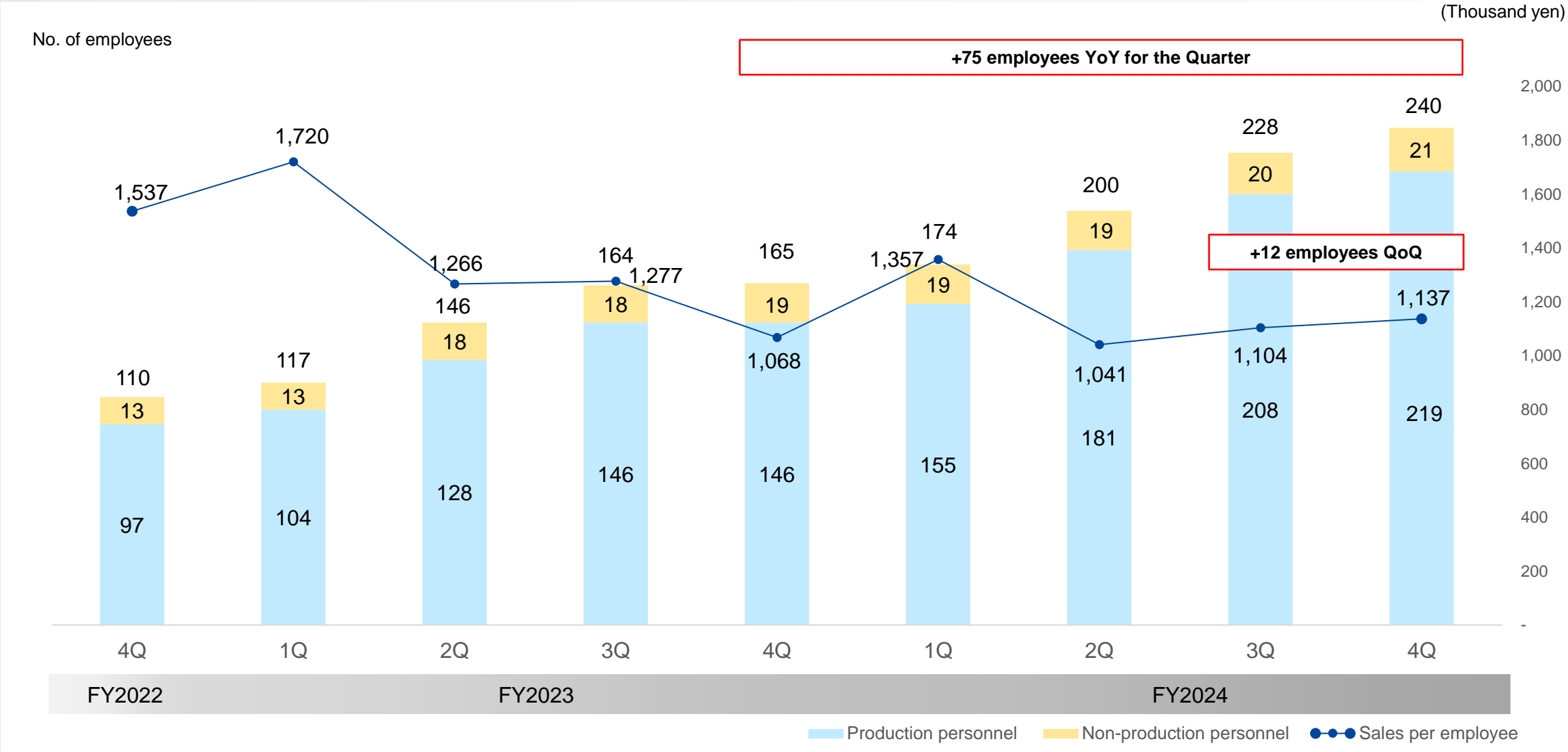


SG&A Expenses, Operating Profit / Operating Profit Margin





Employees, Monthly Sales Per Employee

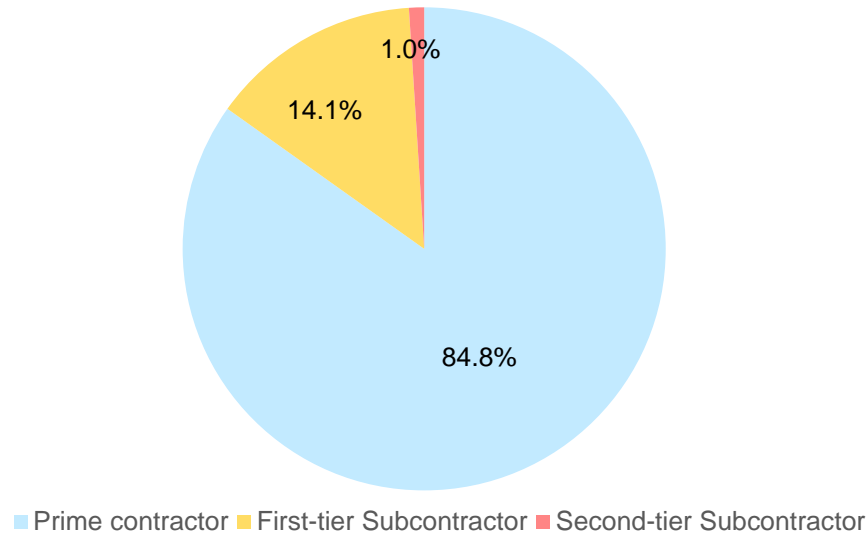


* Contract and part-time employees are not included beginning from FY2024 for the consistency with other disclosed materials.

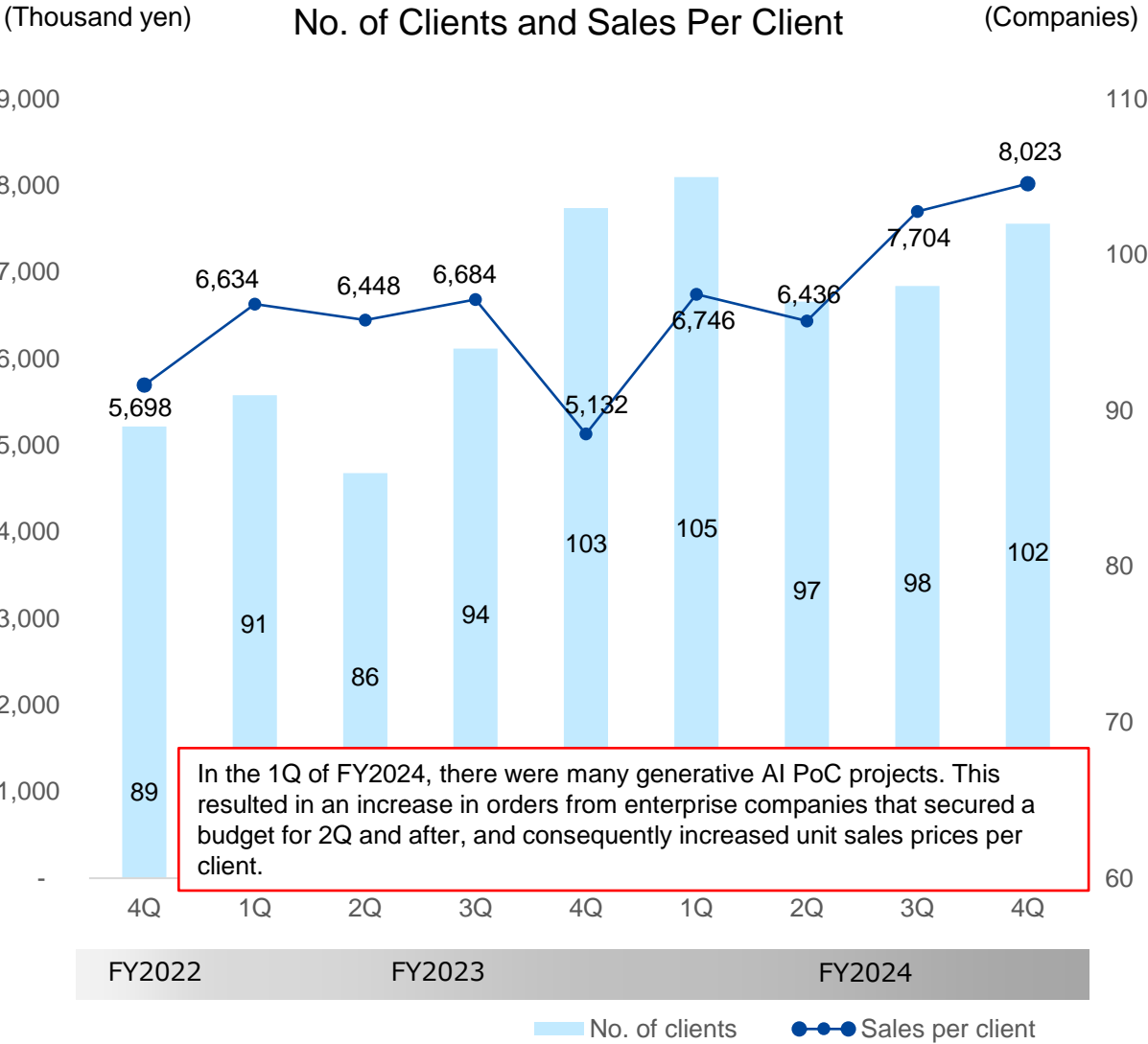


Unit Sales Price, Number of Projects and Contractual Chain Status by Service Category

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.

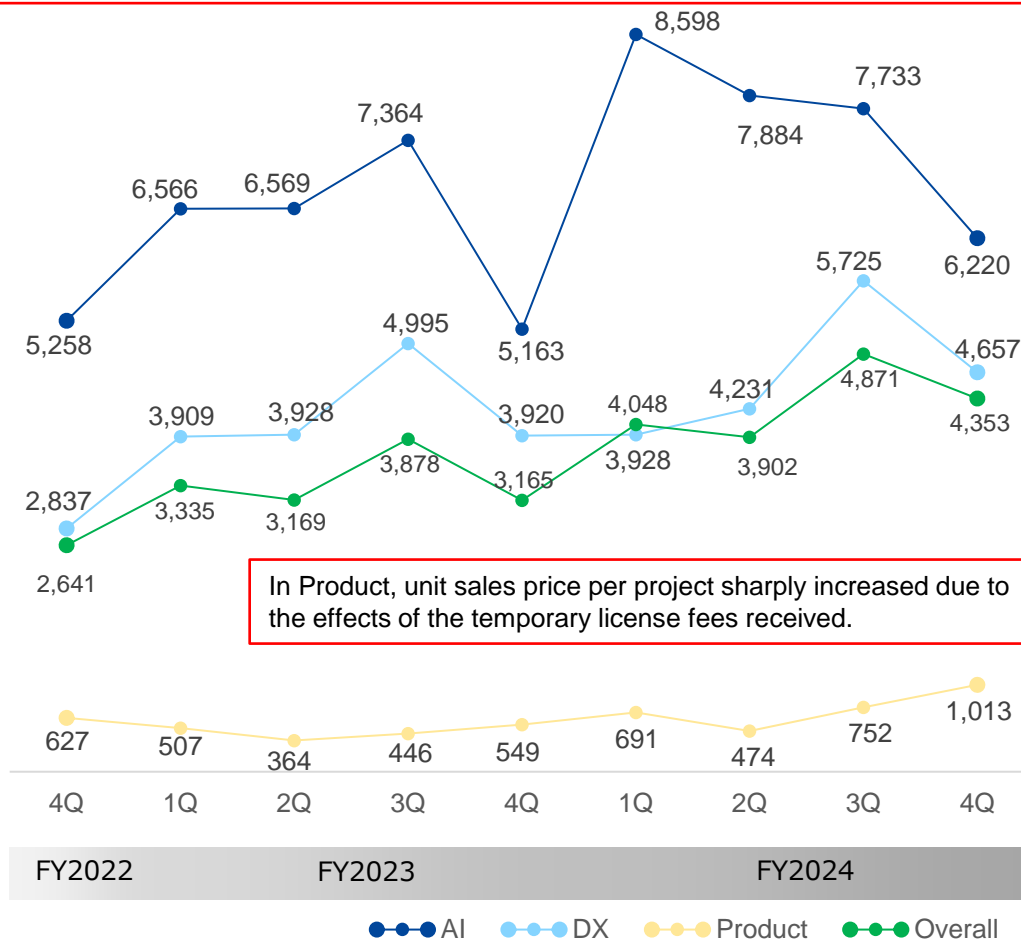




Unit Sales Price, Number of Projects and Contractual Chain Status by Service Category

Unit Sales Price by Service Category (Thousand yen)

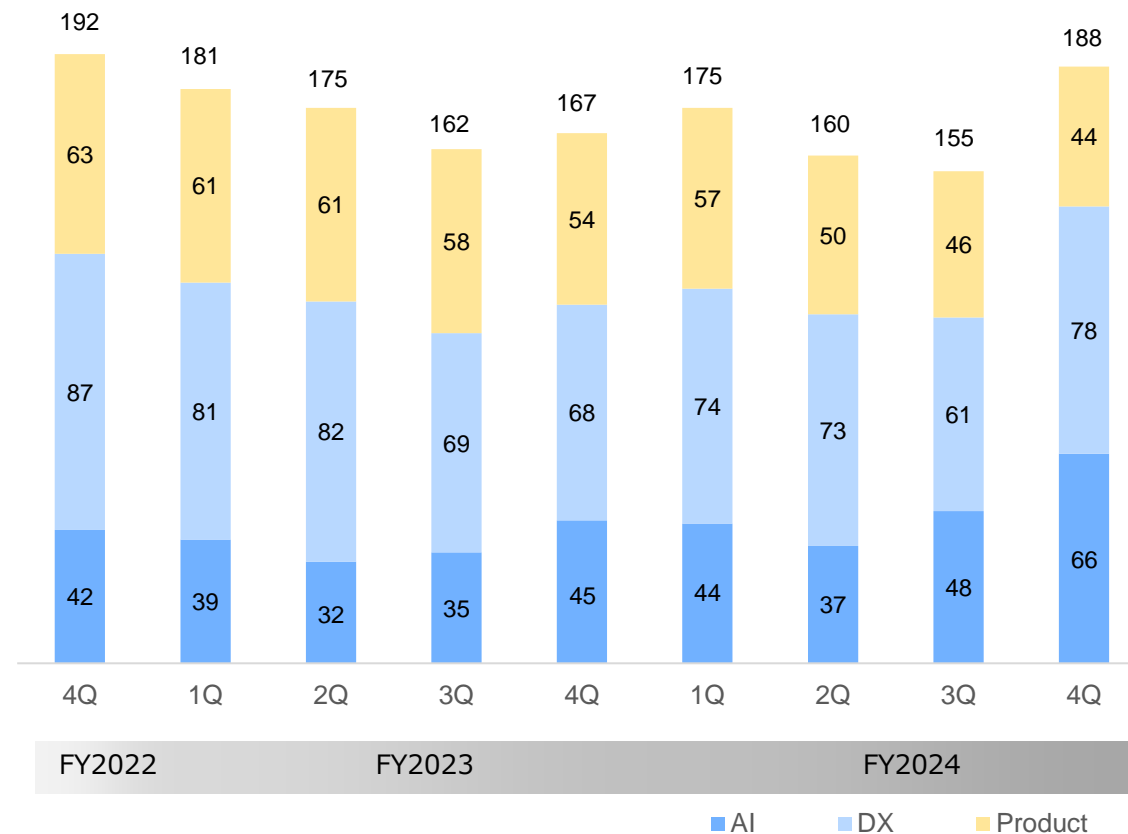
In both AI and DX, unit sales prices exceeded the previous year in each quarter. Even in terms of overall change, indicated by the green line chart, there was an increase from 4Q of FY2022 in which there was almost the same number of projects.



In Product, unit sales price per project sharply increased due to the effects of the temporary license fees received.

No. of Projects by Service Category

Became a top-positioned company in the Microsoft AI domain with Microsoft selecting Headwaters as the 2024 Japan Partner of the Year. As a result, the number of inquiries and orders for projects increased. Being selected to be partner of the year also positively impacted DX projects, in addition to AI projects.



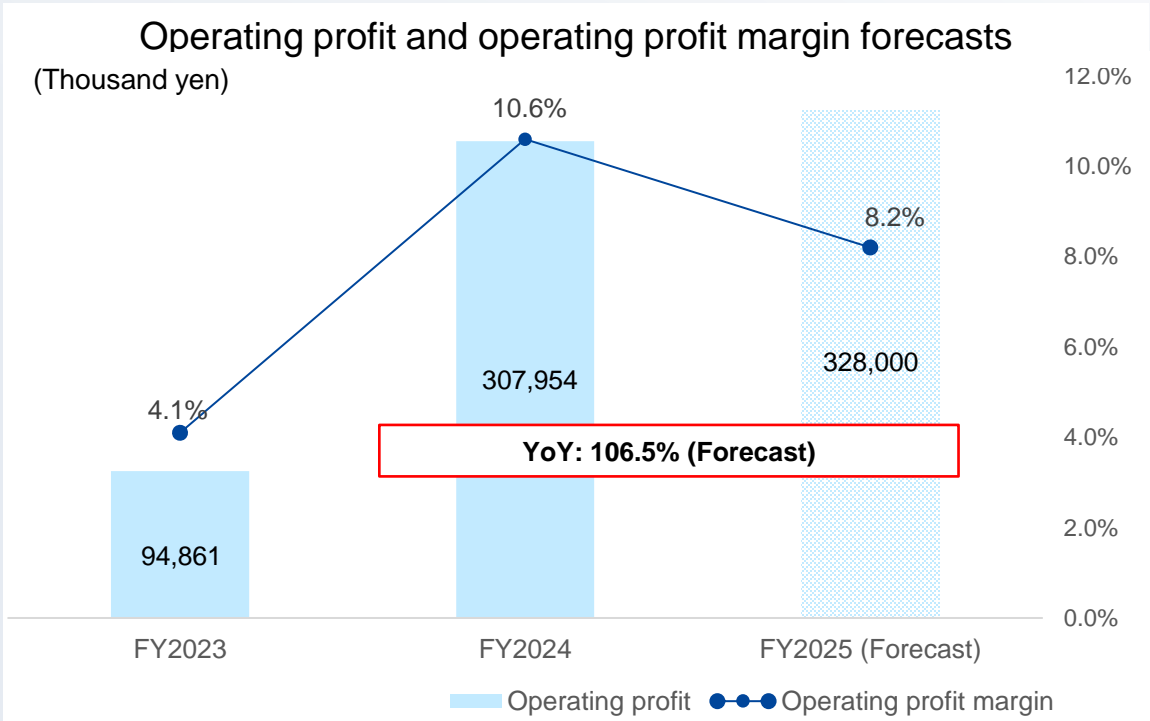
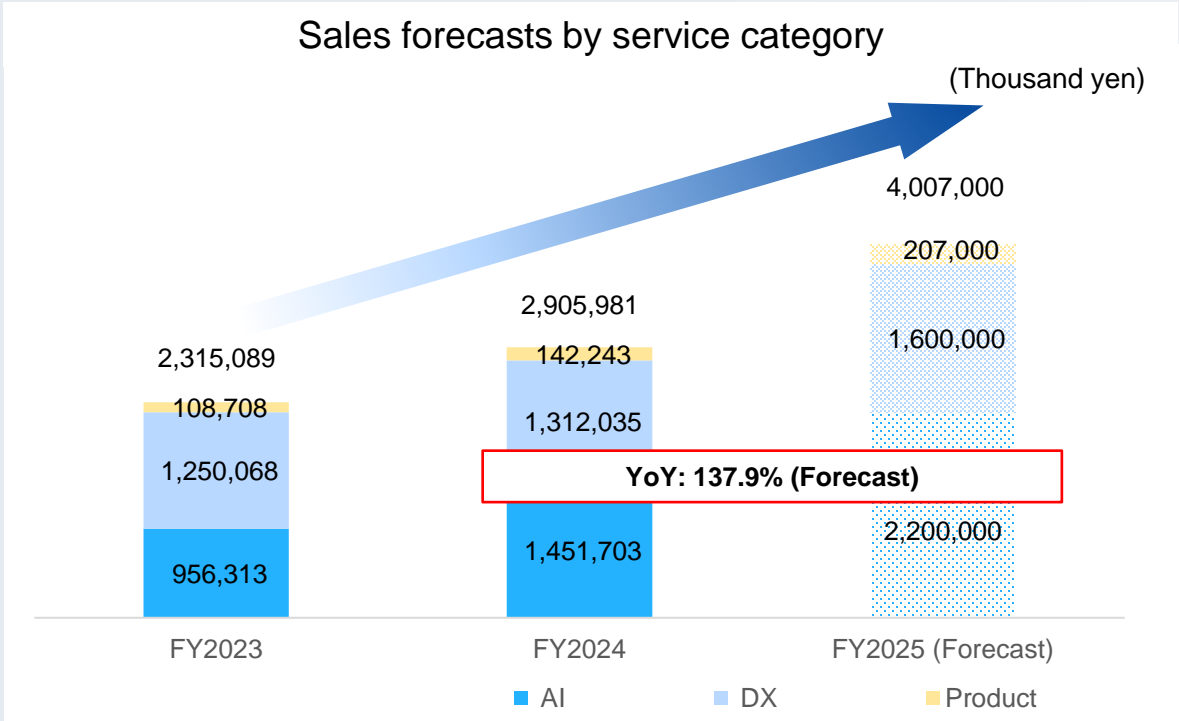
* Because the OPS Services category was discontinued from FY2024, the number of OPS projects in FY2022 and FY2023 has been allocated to the three other service categories.



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.

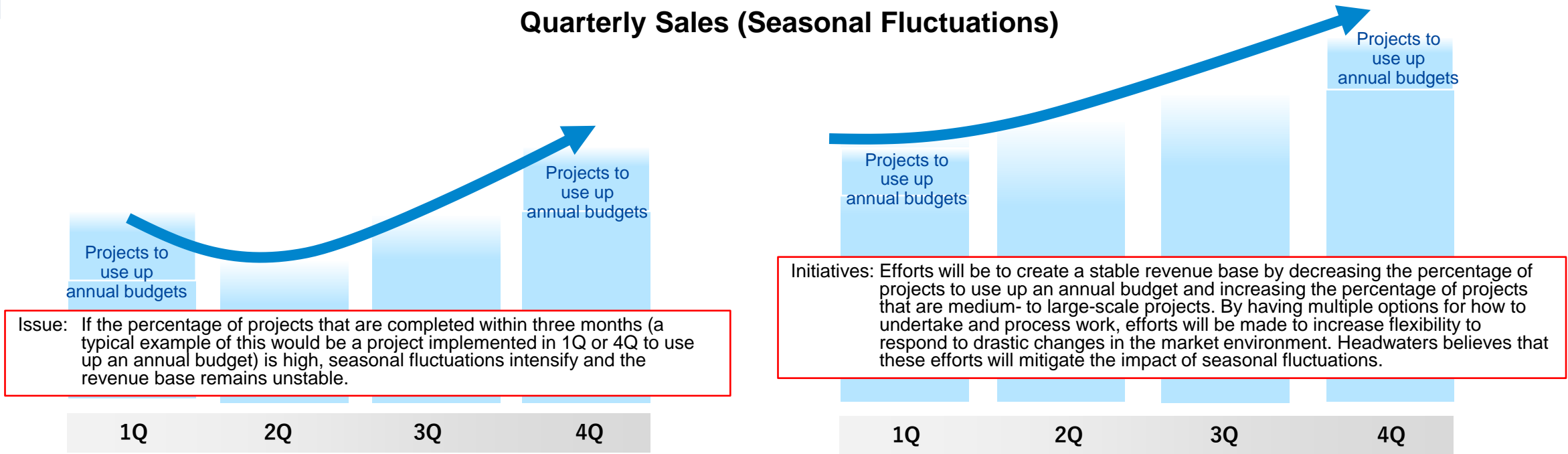


Seasonal Fluctuations in Net Sales

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 trend	SG&A expenses trend	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)

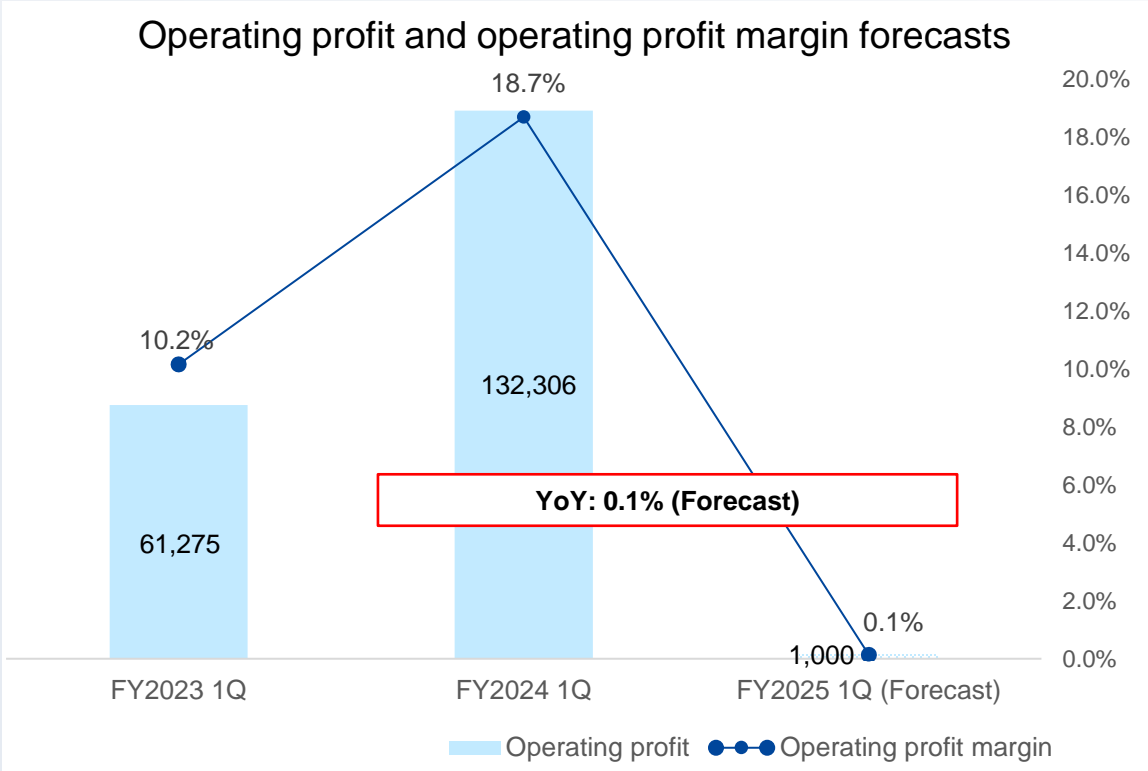
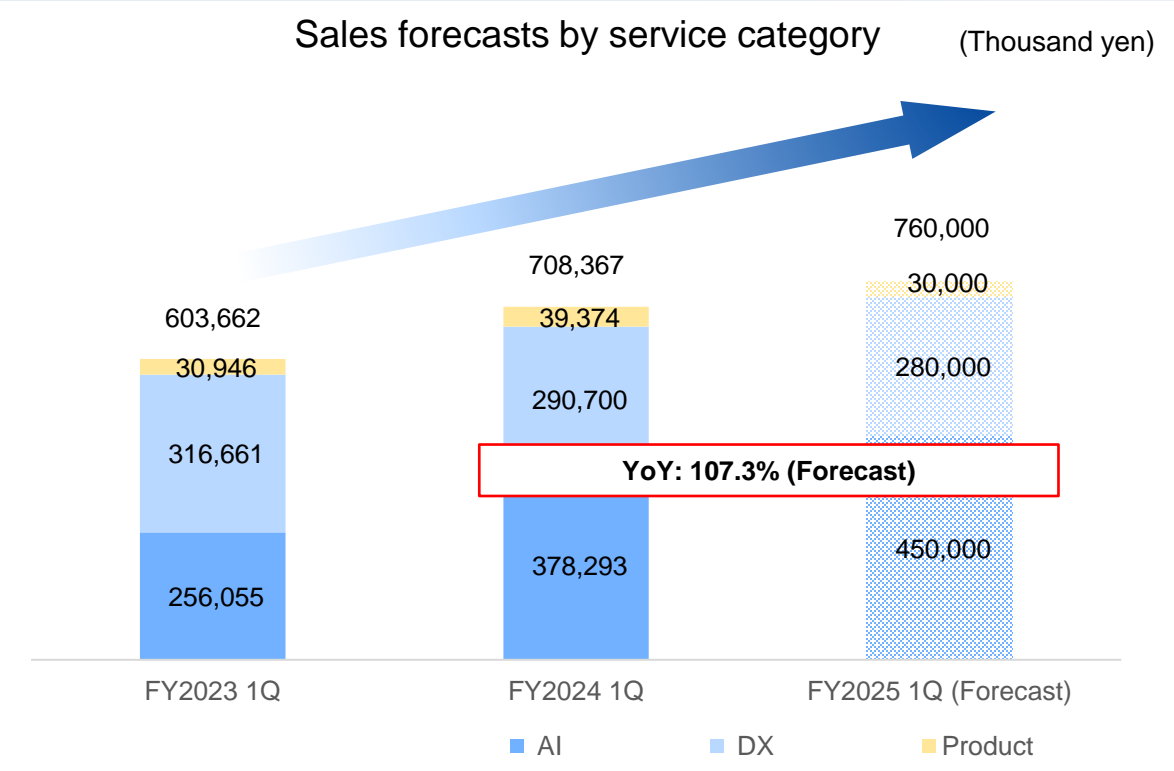




FY2025 1Q Revenue Forecast

Based on its review of FY2024, which was affected by seasonal fluctuations, Headwaters has **positioned the first quarter of FY2025 as an investment period** where it will change its revenue model to enable stable and continuous growth while also increasing sales by prioritizing orders for projects with a focus on medium- and large-sized projects.

- Net sales: Expected to increase slightly due to efforts increase the percentage of proposals and sales that are for medium- to large-scale projects that will start in and after 2Q, instead of focusing on projects to use up a budget.
- Gross profit margin: Forecast to be approximately 40% because employees will focus on proposal creation and sales while projects will be undertaken after increasing the percentage of sales that involve partner companies.
- SG&A expenses: Forecast to be approximately 300 million yen due to the review of employees' salaries, a certain degree of investment in advertising and the posting of recruiting expenses.
- Operating profit: Investments will be implemented in anticipation of the expansion of sales in and after 2Q after surpassing the break-even point.



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IR News Summary (October 2024 - December 2024)

IR News: <https://www.headwaters.co.jp/ir/news/>

■ Timely disclosure

- ✓ Notice of revisions to consolidated forecasts
- ✓ Notice of Agreement of Strategic Capital and Business Alliance between Headwaters Co., Ltd. and BTM, Inc.
- ✓ Notice of Stock Split and Partial Revision to the Articles of Incorporation Following the Split

■ AI technology innovations / Services

- ✓ Launched a conversational AI digital human service using the NVIDIA NIM ACE micro service
- ✓ Launched a system migration AI agent service in which generative AI products such as Azure OpenAI Service OpenAI o1 and GitHub Copilot are used during system migration.
- ✓ Enhanced a generative UI service which automatically generates UI and UX features using Azure OpenAI Service
- ✓ Strengthened the lineup of generative AI services for the automobile industry — The first product is an AI agent for in-vehicle edge computing.
- ✓ 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 —

■ Achievements / Examples of implementation

- ✓ Develop an AI operator in collaboration with Daiwa Securities Co., Ltd. – The transformation of the customer experience (CX) was realized using generative AI —
- ✓ Supported the Tokyo Metropolitan Board of Education's implementation of the Let's Make an App Together Campaign programming event
- ✓ Supported the construction of the SHIBUYA CREATIVE JUNCTION, a City OS-based website sharing information about various places in Shibuya-ku

■ Business alliances / Strengthening of partnerships / Notices

- ✓ Concluded a partnership agreement with AI4LIFE, the Institute for Artificial Intelligence Research and Application of Hanoi University of Science and Technology
- ✓ Concluded a reseller agreement with Elasticsearch K.K to become its partner and strengthened on-premises RAG solutions in the field of generative AI
- ✓ Headwaters Co., Ltd. and BTM, Inc. concluded a capital and business alliance agreement
- ✓ Notice of Publication of Analyst Report by Shared Research Inc.



- 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 FY2024 3Q and FY2024 4Q
 - **YoY:** A comparison between the cumulative figures of the previous fiscal year and the current fiscal year
 - Comparison between figures of FY2023 1Q-4Q and FY2024 1Q-4Q
 - **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 FY2023 4Q and FY2024 4Q
- 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.