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May 15, 2025

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2025 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 4011
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 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: None

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

1. Consolidated financial results for the first quarter of the fiscal year ending December 31, 2025 (January 1, 2025 – March 31, 2025)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended March 31, 2025	739	4.4	(67)	-	(2)	-	(20)	-
March 31, 2024	708	17.3	132	115.9	131	112.8	89	122.6

Note: Comprehensive income For the three months ended March 31, 2025: ¥(0) million [-%]
 For the three months ended March 31, 2024: ¥91 million [up 127.1%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2025	(5.43)	-
March 31, 2024	23.89	21.54

Notes: 1.Headwaters conducted a two-for-one common stock split on January 1, 2025. Basic earnings per share and diluted earnings per share have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2024.

2.Diluted earnings per share for the three months ended March 31, 2025 is not indicated because there was a loss per share although dilutive shares exist.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
March 31, 2025	1,686	1,273	75.1
December 31, 2024	1,800	1,272	70.4

Reference: Equity As of March 31, 2025: ¥1,266 million As of December 31, 2024: ¥1,267 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended December 31, 2024	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00
Fiscal year ending December 31, 2025	-				
Fiscal year ending December 31, 2025 (Forecast)		0.00	-	0.00	0.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated forecast for the fiscal year ending December 31, 2025 (January 1, 2025 – December 31, 2025)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	4,007	37.9	328	6.5	332	(8.4)	237	(13.1)	62.43

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Significant changes in the scope of consolidation during the period: None

Newly included: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

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

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

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

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common stock)

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

As of March 31, 2025	3,796,740 shares
As of December 31, 2024	3,796,740 shares

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

As of March 31, 2025	84 shares
As of December 31, 2024	84 shares

(iii) Average number of shares outstanding during the period

Three months ended March 31, 2025	3,796,656 shares
Three months ended March 31, 2024	3,762,720 shares

Note: Headwaters conducted a two-for-one common stock split on January 1, 2025. The total number of issued shares at the end of the period, the number of treasury shares at the end of the period and the average number of shares outstanding during the period have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2024.

* Review of attached quarterly consolidated financial statements by certified public accountants or an auditing firm :
None

* Proper use of earnings forecasts, and other special matters

Cautionary statement with respect to forward-looking statements

Forecasts and forward-looking statements in these materials are based on assumptions judged to be valid and information available to Headwaters at the time the materials were created. These materials are not promises by Headwaters regarding future performance. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to “1. Qualitative Information on Quarterly Consolidated Financial Performance (3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements” on page 3 of the attachments regarding preconditions or other related matters for the forecast shown above.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first quarter of fiscal year ending December 31, 2025 (January 1, 2025 to March 31, 2025), the Japanese economy continued to recover moderately, mainly reflecting improvements in the employment and income environments and growing demand from inbound tourists. In addition, the business environment surrounding the Headwaters Group remained steady, with a strong appetite for digital investment among companies. Nonetheless, the future of the economy has remained uncertain mainly due to soaring prices, geopolitical risks, and trends in U.S. tariff policy.

In the IT industry in which the Headwaters Group operates, the pace of technological progress is rapid because of many innovations, notably artificial intelligence (AI) and the digital transformation (DX). In particular, the emergence and evolution of generative AI are leading to new ways to deal with Japan's falling working age population and other social issues. This technology is also making enormous contributions to creating new business models and promoting innovations. Generative AI is used in numerous fields, with technological innovation being advanced constantly. The use of generative AI has developed into an AI agent through the evolution of large language model (LLM) and retrieval-augmented generation (RAG). AI use is expected to continue to expand in the future.

In the first quarter of 2025, demand for generative AI remained brisk, as it did in the previous fiscal year, with the continued rise in sales of AI Integration Services. In addition, during the first quarter, the Group ran booths at events, increased its partners, took steps to improve quality, and invested proactively in research and development, among other areas, as part of its efforts to tap effectively into demand for generative AI and expand the sales volume.

Non-operating income arising from a gain on valuation of derivatives was also generated in the first quarter. The purchase of derivatives was conducted as part of the stock acquisition associated with the capital and business alliance in 2024 and as such does not fall under speculative transactions.

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

- AI Integration Services: Consulting and development services for generative AI, Copilot, edge AI and other fields
- DX Services: Platform development, DX consulting, Azure cloud development, low-code development and other activities
- Product Services: Headwaters services, sales agent operations including cloud utilization fees

AI Integration Services

In addition to IoT-based edge AI projects, the Group has focused on promoting generative AI projects by expanding its GPT service lineup for generative AI since 2024. Among them, AI agent projects, which use generative AI for customer services and operations and involve automated discrimination and automated execution by AI, have become the mainstream. The Group has been involved in a large number of projects requiring comprehensive strength, including quality suitable for commercial use in terms of the precision of answers and response speed, among other elements, the creation of apps that are compliant with laws and regulations, and the speed to keep pace with new technologies and reflect them in customer services, as well as the use of vast amount of business data held by customers for generative AI.

In the first quarter, AI Integration Services sales increased 15.2% year on year to 435 million yen thanks to new orders received for generative AI and AI agent projects and sales expansion in edge AI projects.

DX Services

The Group's DX service projects include platform development for cloud services centered on Microsoft Azure, consultation for companies' DX initiatives, and low-code development to improve efficiency. We also provide services such as modernization, which is updates and improvements to old systems by using the latest technologies and methods, and support for internalization of various processes by using Microsoft Power Platform and other low-code tools.

During the first quarter, the Group continued striving to develop new businesses for existing clients. However, DX Services sales decreased 5.8% year on year to 273 million yen due to recategorization of some sales from the DX Services to the AI Integration Services, which resulted from the expansion of the use of generative AI to DX projects.

Product Services

There are two major components of this category. One is a licensing business for the SyncLect series of in-house services. The other is a sales agent business involving cloud utilization service fees and the sale of IoT equipment purchased from other companies.

During the first quarter, the Group developed the SyncLect AI Agent service, which is an AI agent service, and enhanced the maintenance plan for SyncLect Generative AI, which is a generative AI service, thus improving the quality of services for existing clients. Sales of AI Integration Services have been increasing, with strong demand for the use of generative AI. However, because demand for customized development was strong among enterprise companies as principal customers, Product Services sales decreased 25.0% year on year to 29 million yen.

As a result, net sales for the first quarter of 2025 increased 4.4% year on year to 739 million yen. The Group posted an operating loss of 67 million yen (operating profit of 132 million yen in the first quarter of 2024), an ordinary loss of 2 million yen (ordinary profit of 131 million yen in the first quarter of 2024), and a loss attributable to owners of parent of 20 million yen (profit attributable to owners of parent of 89 million yen in the first quarter of 2024).

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

(2) Explanation of Financial Position

Assets

Total assets at the end of the first quarter of 2025 stood at 1,686 million yen, a decrease of 113 million yen from the end of 2024.

Current assets totaled 1,267 million yen at the end of the first quarter of 2025, a decrease of 191 million yen from the end of 2024. This was mainly due to decreases of 60 million yen in cash and deposits, 120 million yen in accounts receivable - trade and contract assets and 9 million yen in prepaid expenses. Non-current assets increased 78 million yen from the end of 2024 to 418 million yen. This is mainly attributable to increases of 1 million yen in property, plant and equipment, and 77 million yen in investments and other assets.

Liabilities

Total liabilities at the end of the first quarter stood at 413 million yen, a decrease of 114 million yen from the end of 2024. This was mainly due to an increase of 20 million yen in accounts payable - trade, which was more than offset by decreases of 46 million yen in accrued consumption taxes and 89 million yen in income taxes payable.

Net assets

Total net assets as of the end of the first quarter resulted in 1,273 million yen, which is an increase of 0.5 million yen from the end of 2024. This was mainly attributable to a decrease in retained earnings of 19 million yen that resulted from the posting of a loss attributable to owners of parent, more than offset by an increase of 20 million yen in valuation difference on available-for-sale securities.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements

No change has been made to the earnings forecasts announced on February 14, 2025.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

	(Thousands of yen)	
	Fiscal Year 2024 (As of Dec. 31, 2024)	First quarter of Fiscal Year 2025 (As of Mar. 31, 2025)
Assets		
Current assets		
Cash and deposits	843,233	783,011
Accounts receivable - trade and contract assets	562,870	442,832
Work in process	3,955	1,802
Prepaid expenses	48,888	39,415
Other	863	785
Total current assets	1,459,812	1,267,847
Non-current assets		
Property, plant and equipment	40,018	41,741
Intangible assets	10,048	9,310
Investments and other assets		
Derivatives	161,827	224,226
Other	128,681	143,595
Total investments and other assets	290,508	367,821
Total non-current assets	340,576	418,873
Total assets	1,800,388	1,686,721
Liabilities		
Current liabilities		
Accounts payable - trade	164,122	184,682
Accounts payable - other	24,099	42,517
Accrued expenses	117,108	107,305
Accrued consumption taxes	78,968	32,332
Income taxes payable	99,472	9,502
Contract liabilities	8,609	1,419
Deposits received	32,585	32,725
Provision for loss on orders received	2,826	-
Total current liabilities	527,793	410,486
Non-current liabilities		
Deferred tax liabilities	-	3,046
Total non-current liabilities	-	3,046
Total liabilities	527,793	413,532
Net assets		
Shareholders' equity		
Share capital	378,338	378,338
Capital surplus	368,338	368,338
Retained earnings	503,632	484,267
Treasury shares	(227)	(227)
Total shareholders' equity	1,250,081	1,230,716
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	15,966	36,606
Foreign currency translation adjustment	1,012	(404)
Total accumulated other comprehensive income	16,979	36,201
Non-controlling interests	5,534	6,270
Total net assets	1,272,595	1,273,188
Total liabilities and net assets	1,800,388	1,686,721

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

Quarterly Consolidated Statement of Income

(For the Three-month Period)

	(Thousands of yen)	
	First three months of Fiscal Year 2024 (Jan. 1, 2024 – Mar. 31, 2024)	First three months of Fiscal Year 2025 (Jan. 1, 2025 – Mar. 31, 2025)
Net sales	708,367	739,209
Cost of sales	377,789	441,261
Gross profit	330,578	297,948
Selling, general and administrative expenses	198,271	365,568
Operating profit (loss)	132,306	(67,619)
Non-operating income		
Interest income	4	422
Foreign exchange gains	-	1,150
Gain on valuation of derivatives	-	62,399
Other	1	782
Total non-operating income	5	64,754
Non-operating expenses		
Foreign exchange losses	669	-
Other	36	-
Total non-operating expenses	706	-
Ordinary profit (loss)	131,605	(2,865)
Profit (loss) before income taxes	131,605	(2,865)
Income taxes - current	40,199	7,324
Income taxes - deferred	686	8,676
Total income taxes	40,885	16,000
Profit (loss)	90,719	(18,866)
Profit attributable to non-controlling interests	823	1,753
Profit (loss) attributable to owners of parent	89,896	(20,619)

Quarterly Consolidated Statement of Comprehensive Income
(For the Three-month Period)

(Thousands of yen)

	First three months of Fiscal Year 2024 (Jan. 1, 2024 – Mar. 31, 2024)	First three months of Fiscal Year 2025 (Jan. 1, 2025 – Mar. 31, 2025)
Profit (loss)	90,719	(18,866)
Other comprehensive income		
Valuation difference on available-for-sale securities	-	20,639
Foreign currency translation adjustment	1,000	(1,889)
Total other comprehensive income	1,000	18,749
Comprehensive income	91,720	(116)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	90,647	(1,397)
Comprehensive income attributable to non-controlling interests	1,073	1,280

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment Information

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

Consolidated Statement of Cash Flows

The quarterly consolidated statement of cash flows for the first three months of the Fiscal Year 2025 is not prepared. Depreciation for each period is as follows.

	First three months of Fiscal Year 2024 (Jan. 1, 2024 – Mar. 31, 2024)	First three months of Fiscal Year 2025 (Jan. 1, 2025 – Mar. 31, 2025)
Depreciation	3,516 thousand yen	5,262 thousand yen