

Results of Operations for the Second Quarter of FY2025

Headwaters Co., Ltd.

August 28, 2025

Securities code: 4011

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01

The History of Headwaters

- Past
- Present
- Future



About Us (As of the end of June 2025)

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	382 million yen
Number of employees	290 (all group companies, excluding contract and part-time employees)

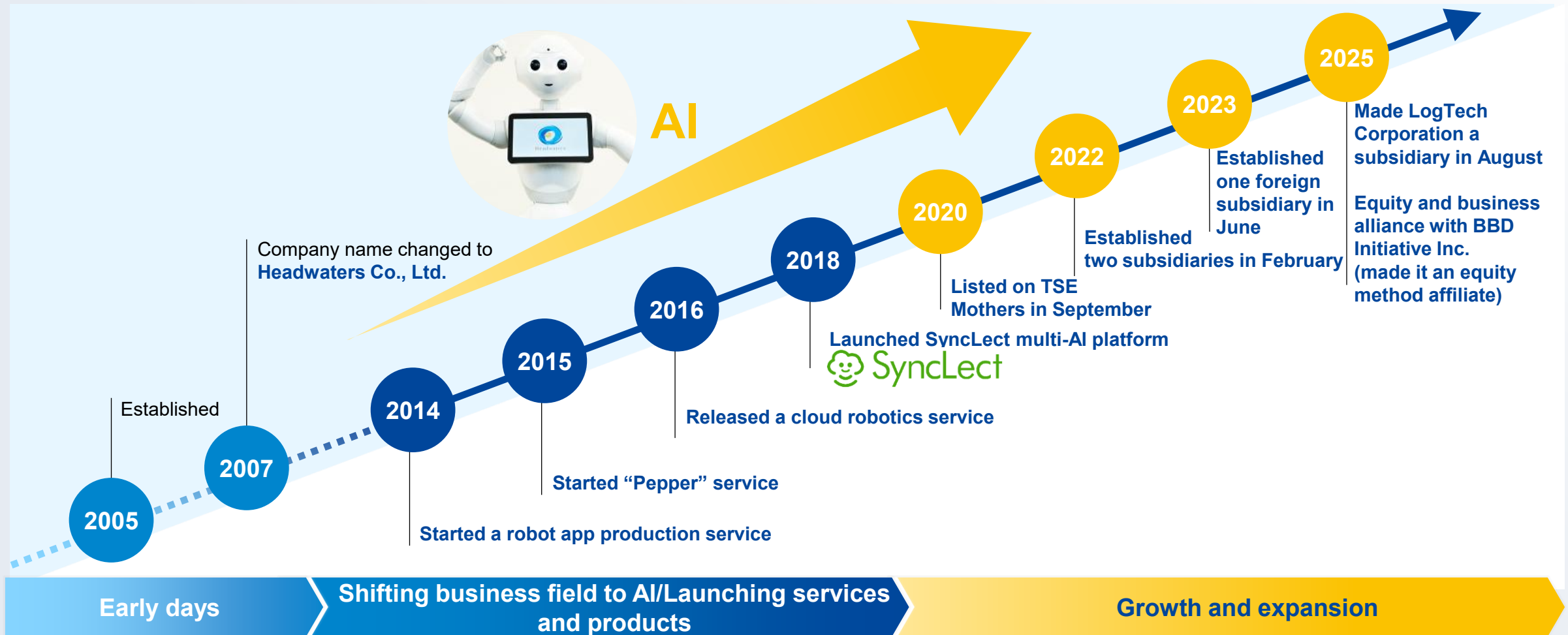
**Becoming
the center of industry,
headwaters.**

Engineering × Business = ∞

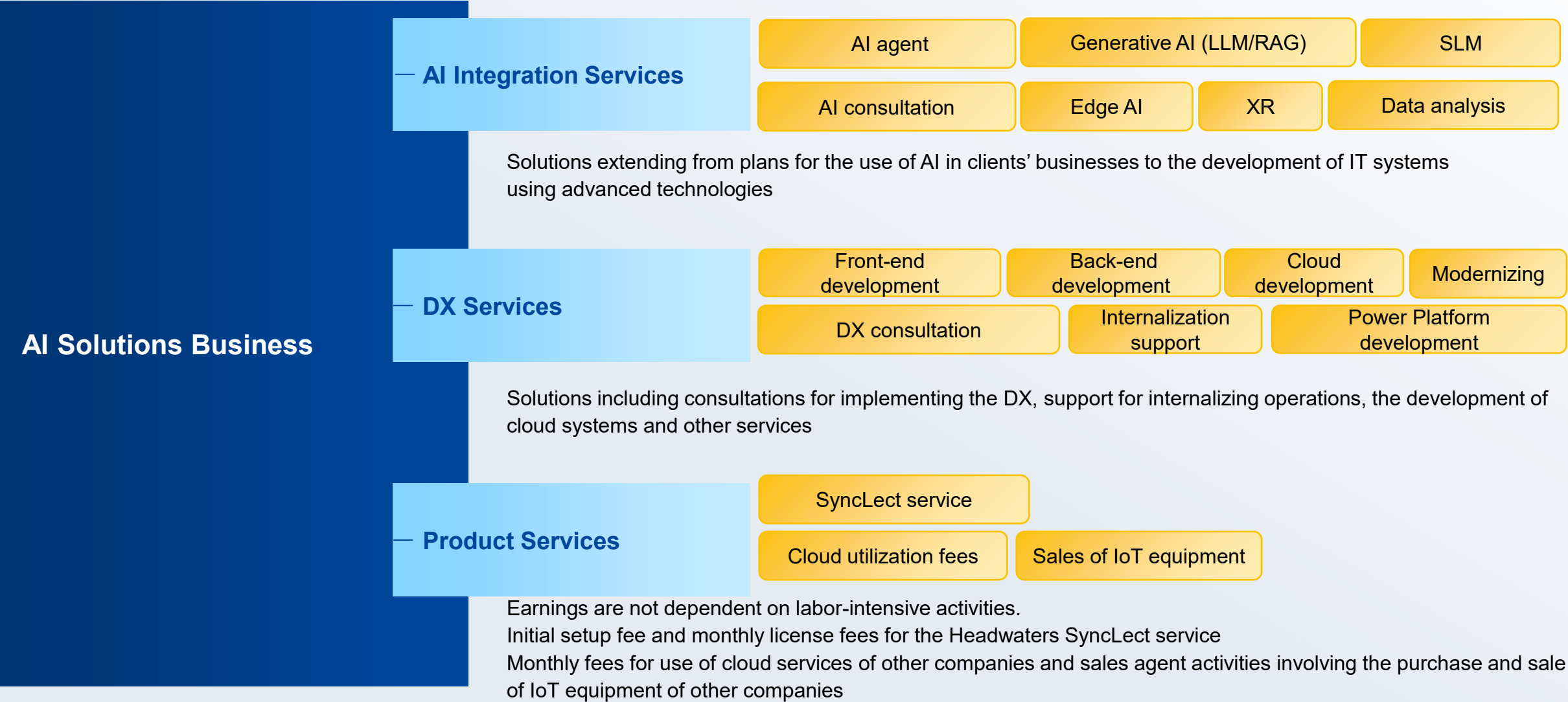
**Implement new technology
to the society**

▶ 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.



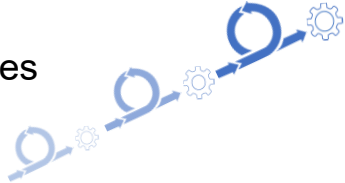
Offering services by dividing our AI solutions business into three service categories and synergistically combining them

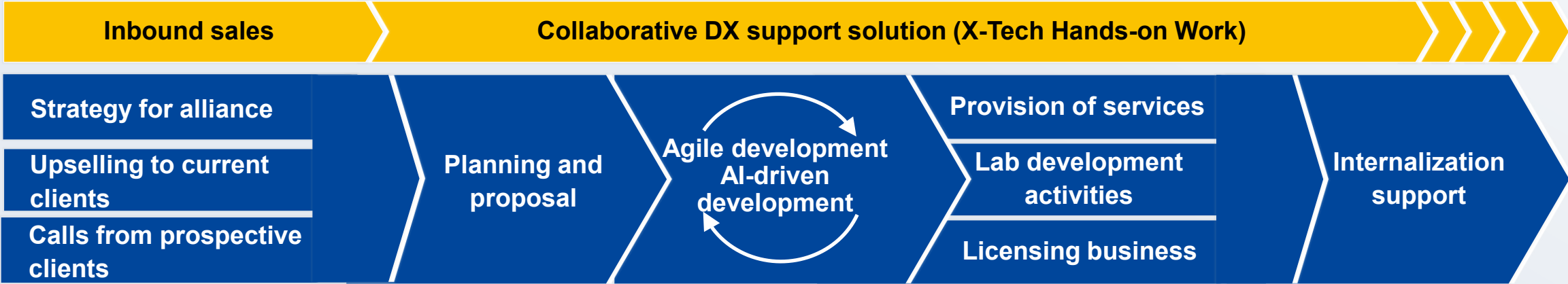


After engaging in extensive communication with our customers, Headwaters provides a highly practical system with “**integration**” functionality

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 and AI-driven development methodologies 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







What Makes Headwaters Different

Much experience and DX expertise since the emergence of the AI/robotics market and a fully integrated collaborative business model. The result is a competitive cost structure, speed, innovative business proposals and other strengths. Furthermore, Headwaters has the skills to determine the best fit for advanced technologies in the operations of client companies.

	Processes	Technologies	Applications	Speed	
Consulting companies	Only consulting	Other than development	Mostly large projects	Ordinary	
Major system integrators	Only system development	Relies on partner companies	Medium- to large-scale projects	Slow	
AI engine developers	Only AI development	Mainly AI expertise	Small- to medium-scale projects	Fast	
Headwaters	Integrated from consulting to collaborative development	Broad expertise (AI, DX)	Medium- to large-scale projects	Fast	
Business and technology consultants	Proof of concept analysis	Request for proposal studies	Design	Development	Operation
	Consulting		Development		OPS



The ideal approach as an innovation partner

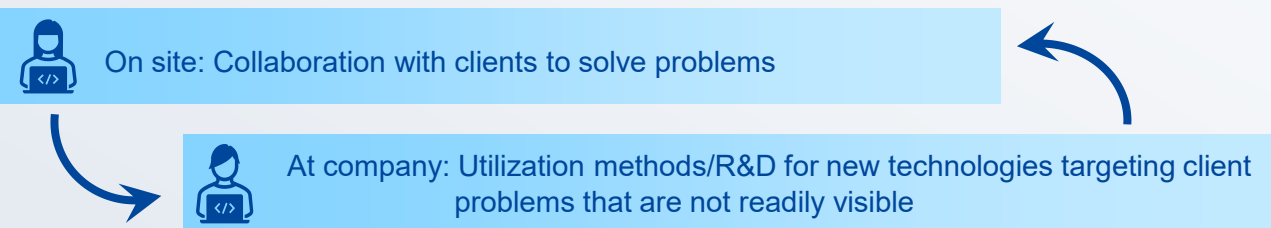
The collaborative DX support solution



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

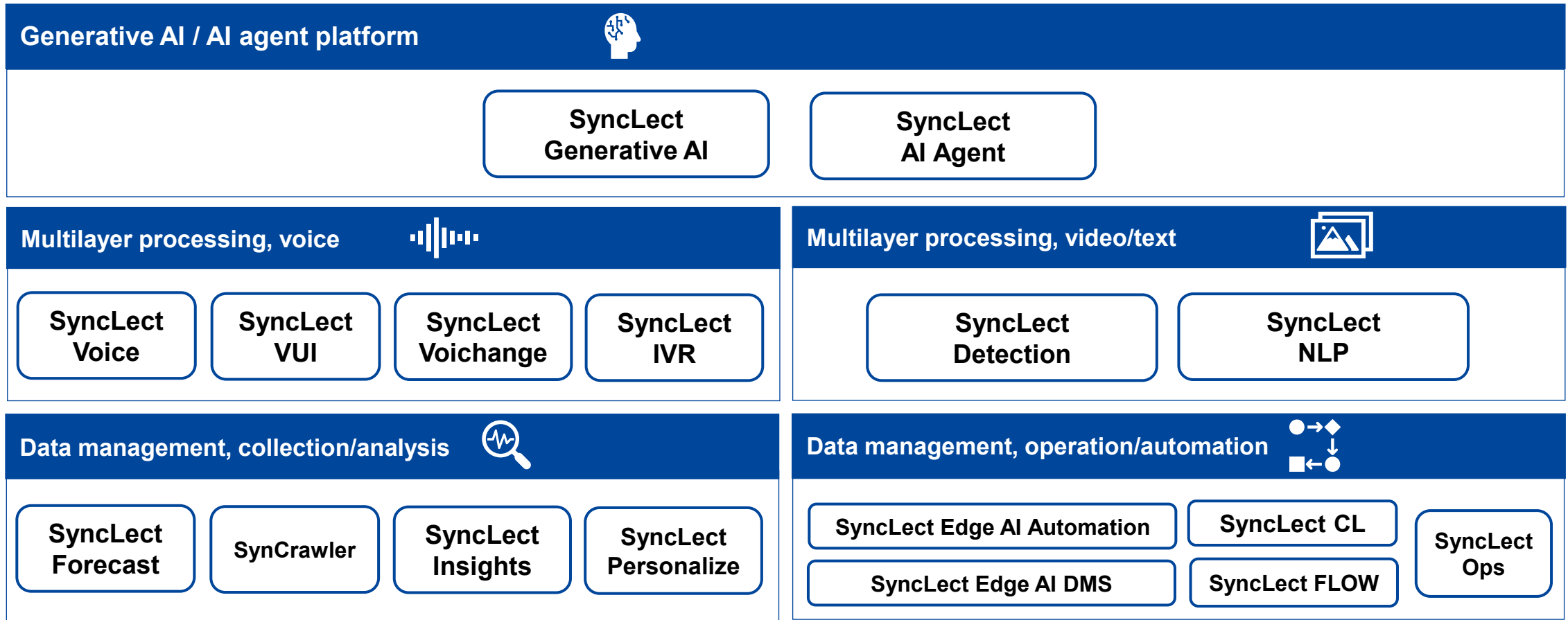
- ✓ Developing new businesses for clients, including more departments and group companies
 - ✓ Create joint services
 - ✓ Use alliances to become more competitive
 - ✓ Recurring revenue businesses using revenue sharing and licensing models
- Sales growth is backed by the complete integration of services 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



02 — Highlights of FY2025 1H

- Accomplishments
- Improvements



FY2025 1H Consolidated Financial Results Overview

(Thousand yen)

(Thousand yen)

	FY2024 1H Results		FY2025 1H Results			
		Pct. to net sales (%)		Pct. to net sales (%)	YoY change (%)	Vs. annual plan (%)
Net sales	1,332,685	100.0	1,637,995	100.0	122.9	40.8
AI	670,005	50.3	1,032,192	63.0	154.1	46.9
DX	599,594	45.0	551,928	33.7	92.1	34.4
Product	63,085	4.7	53,874	3.3	85.4	26.0
Operating profit (loss)	151,124	11.3	(24,379)	-	-	-
Ordinary profit (loss)	150,475	11.3	(75,501)	-	-	-
Profit (loss) attributable to owners of parent	100,976	7.6	(52,607)	-	-	-
Net income (loss) per share	26.72 yen		(13.85) yen			

Net Sales

1,637 million yen

- YoY change: **+22.9%**
- Vs. annual plan: 40.8%

All-time High

FY2025 Key Performance Indicators: Sales and Recruiting

Accomplishments

- We addressed seasonal fluctuations, which had been causing a decline in sales in 2Q, from a medium-term perspective, **achieving new record high net sales**.
- Change in the customer base: With large companies with sales of over one trillion yen steadily accounting for major clients, **unit sales per client hit a new record high**.
- Development of new businesses with existing clients: As a result of the organizational improvement of the Biz Dev team, progress continued to be made in the handling of multiple projects with a focus on providing collaborative support in the medium to long term.
 - AI: **Net sales hit a new record high for the fifth consecutive quarter** due to the expansion of edge AI projects, as well as generative AI and AI agent projects. In addition to the number of workshops for the introduction of generative AI and that of hackathon projects, there was an increase in the number of Azure data platform projects.
 - DX: Reflecting the further adoption of AI in existing DX projects, progress continued to be made in the shift of net sales from the DX segment to the AI segment.
 - Product: Terminated our in-house services, excluding the SyncLect service, which we will focus on as in-house services. Focused also on the demonstration of efficiency improvements by facilitating AI-driven development in the development of in-house services.



Financial Summary

Operating Loss

(24) million yen

Ordinary Loss

(75) million yen



Accomplishments

- Gross profit and margin: **Achieved a record high gross profit** by increasing unit sales prices and steadily advancing projects.

Improvements

- While steady progress was made in recruitment in 2Q, a quarter in which recruitment is actively carried out, a sharp rise in personnel recruitment expenses resulted in an increase in SG&A expenses.
- Achieved a sharp recovery from the operating loss recorded in 1Q due to active investments, **returning to profitability in 2Q on a non-consolidated basis**. However, there was again a first half loss.
- Non-operating income: Recorded a loss on valuation of derivatives in 2Q, more than offsetting the gain on derivatives recorded in 1Q.



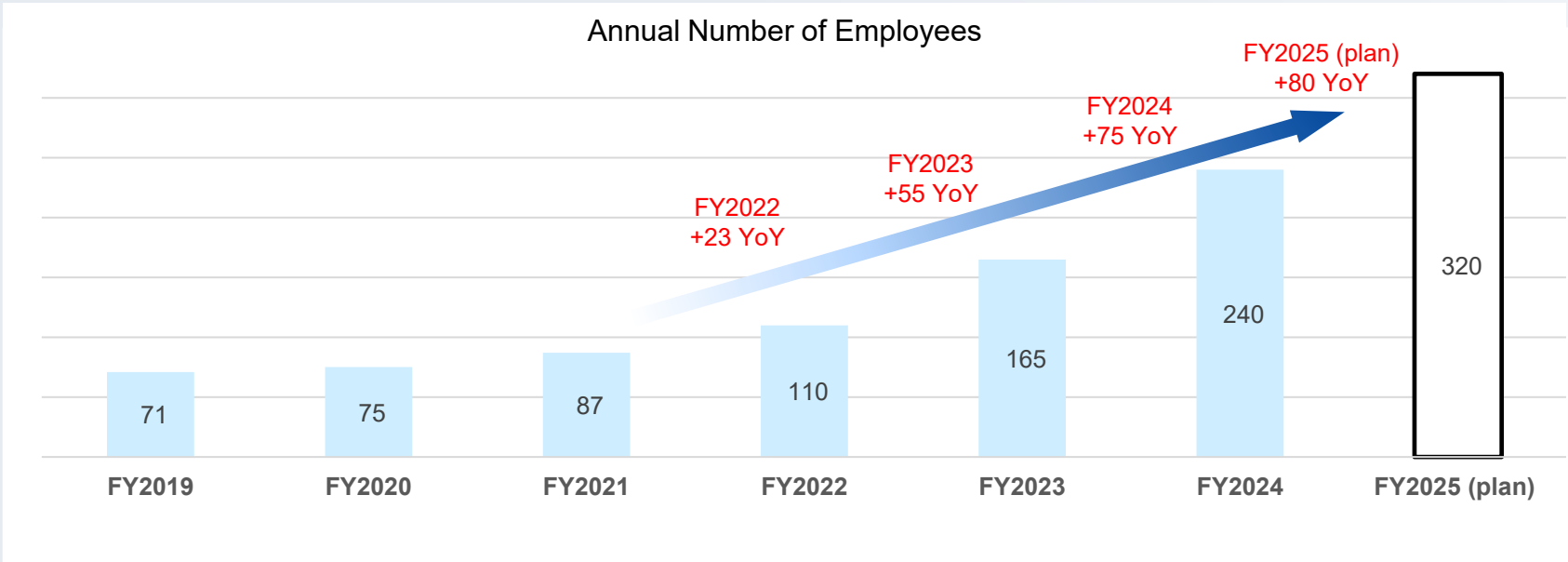
Recruiting

Net increase of 50 employees in the first half
(The recruitment target for FY2025 is a net increase of 80 employees)

-Recruitment vs. annual target: 62.5%

Accomplishments

- Net increase of 37 employees including nine new graduates in 2Q (compared to a net increase of 24 in the same period of FY2024).
- Target age groups in recruitment: The steady progress in recruiting mid-to high-level talent continued.
- Turnover rate: Expected to be around 10% as usual



Number of employees (1H)

290

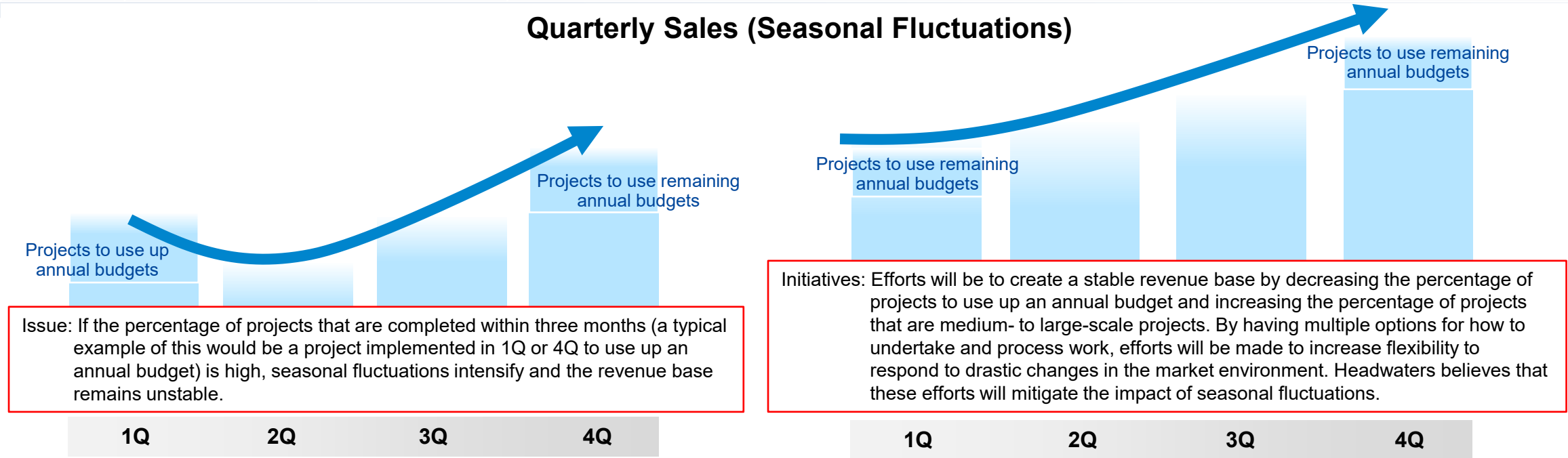


Seasonal Fluctuations in Net Sales

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.

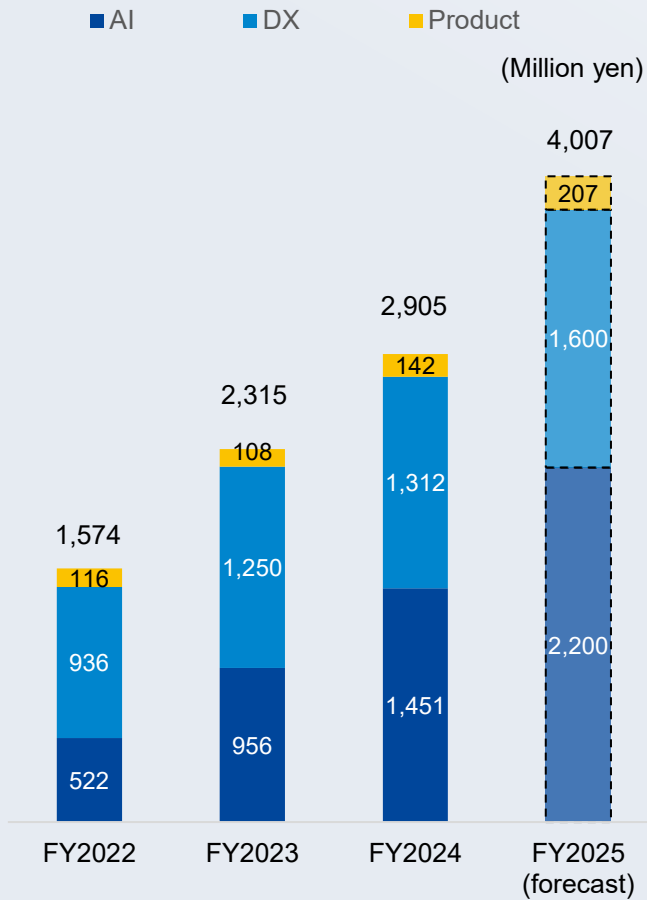
	Net sales	SG&A expenses	Characteristics
1Q	Low	Medium	As the period will be characterized by a flood of projects, efforts will be made to control seasonal fluctuations by shifting to the acquisition of orders with a focus on medium- to large-scale projects.
2Q	Medium	High	Sales will be stronger than 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)

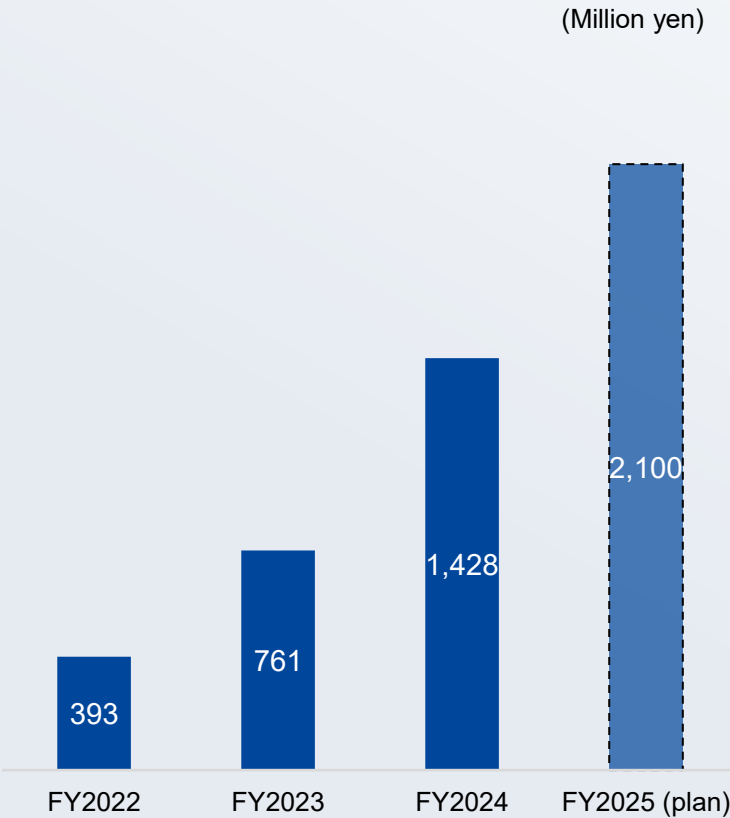




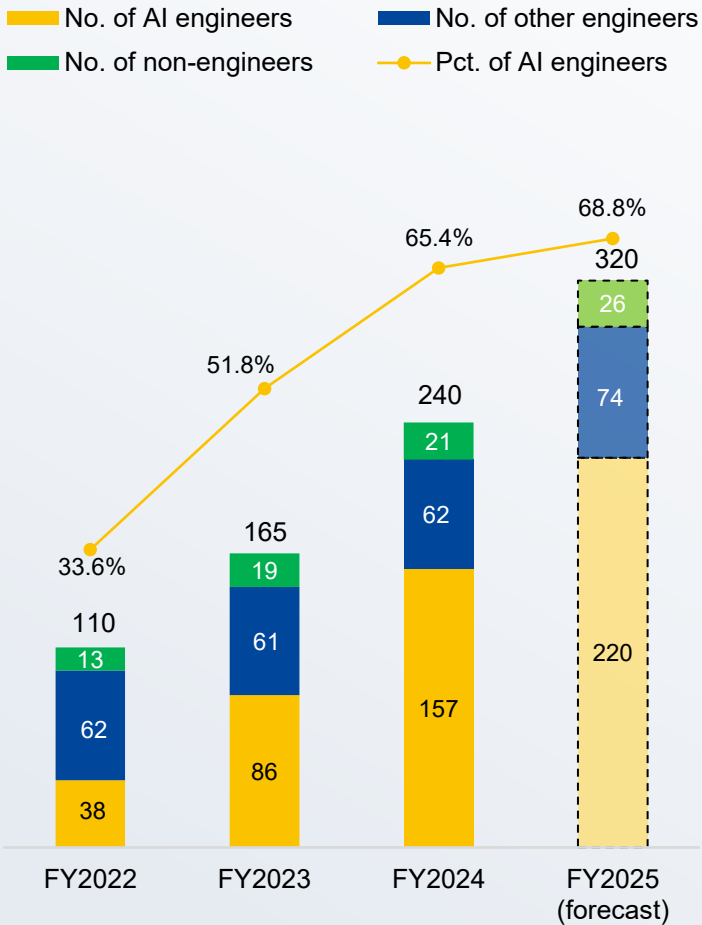
Net Sales by Service Category



Alliance Strategy-Related Sales



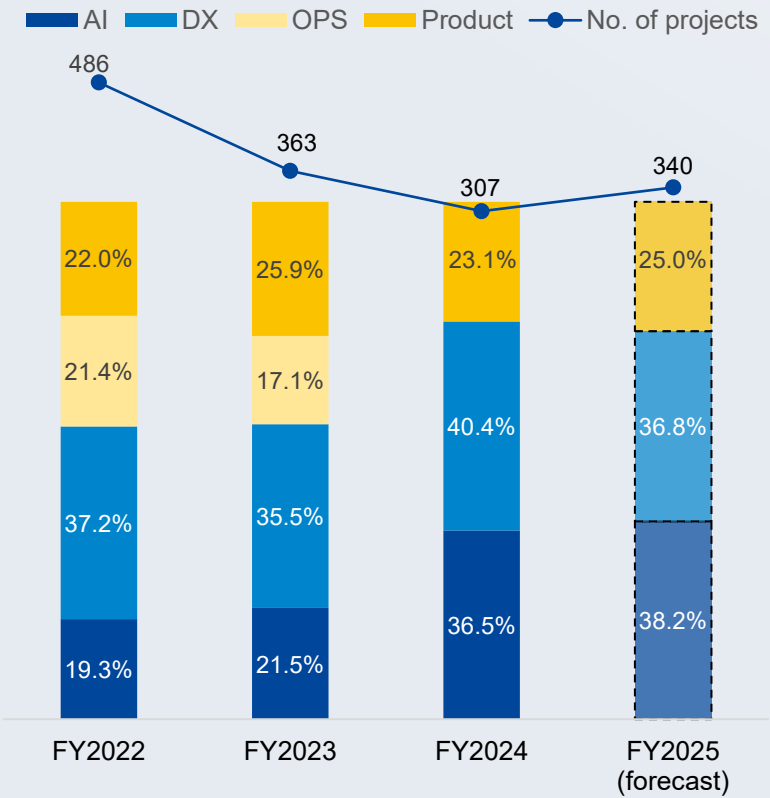
No. of Employees and AI Engineers



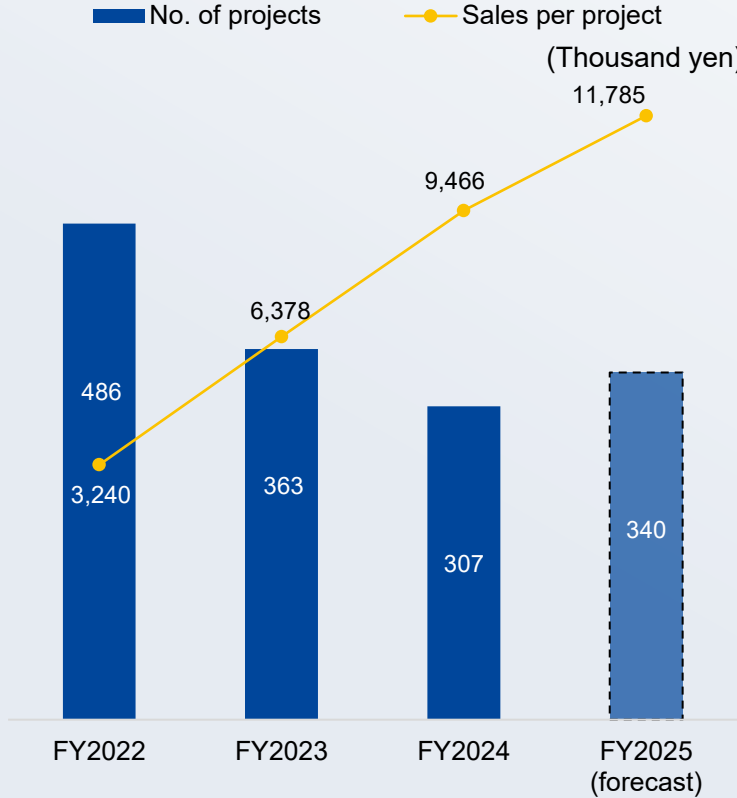
*The OPS services category was terminated from FY2024.
*The figures have been consolidated, including group companies, since FY2022.

*excluding contract and part-time employees

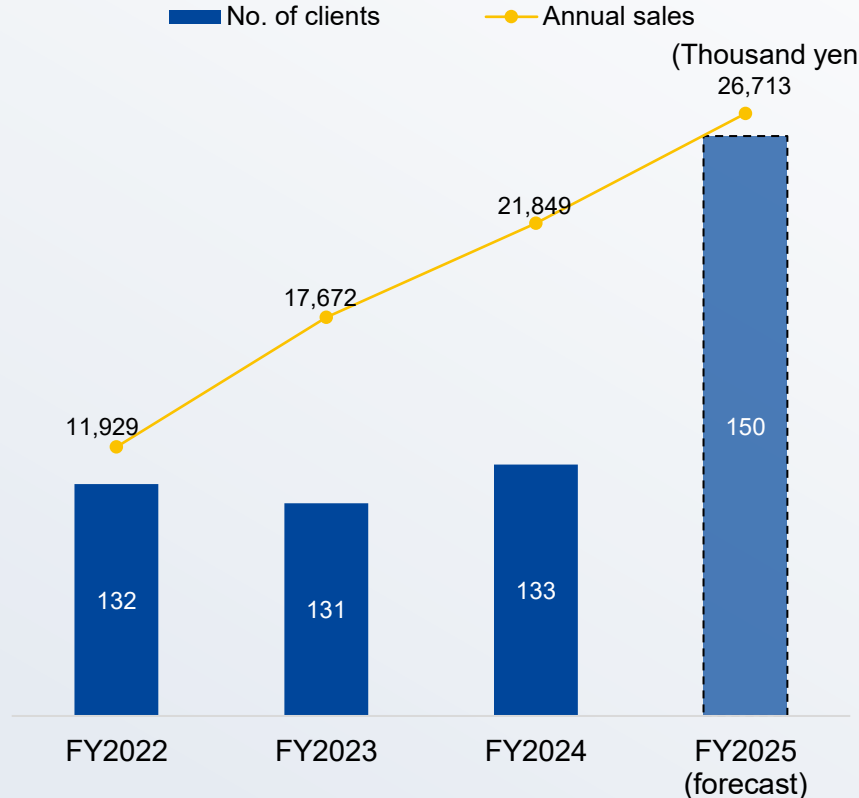
No. of Projects and the Ratio of Projects by Service Category



Sales per Project



Annual Sales per Client



*The OPS services category was terminated from FY2024.

Short term

— AI Agent AI-driven Development

AI agent/AI-driven development capabilities are the key to success.
→ R&D programs have already cut the number of steps by 30% to 92%

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

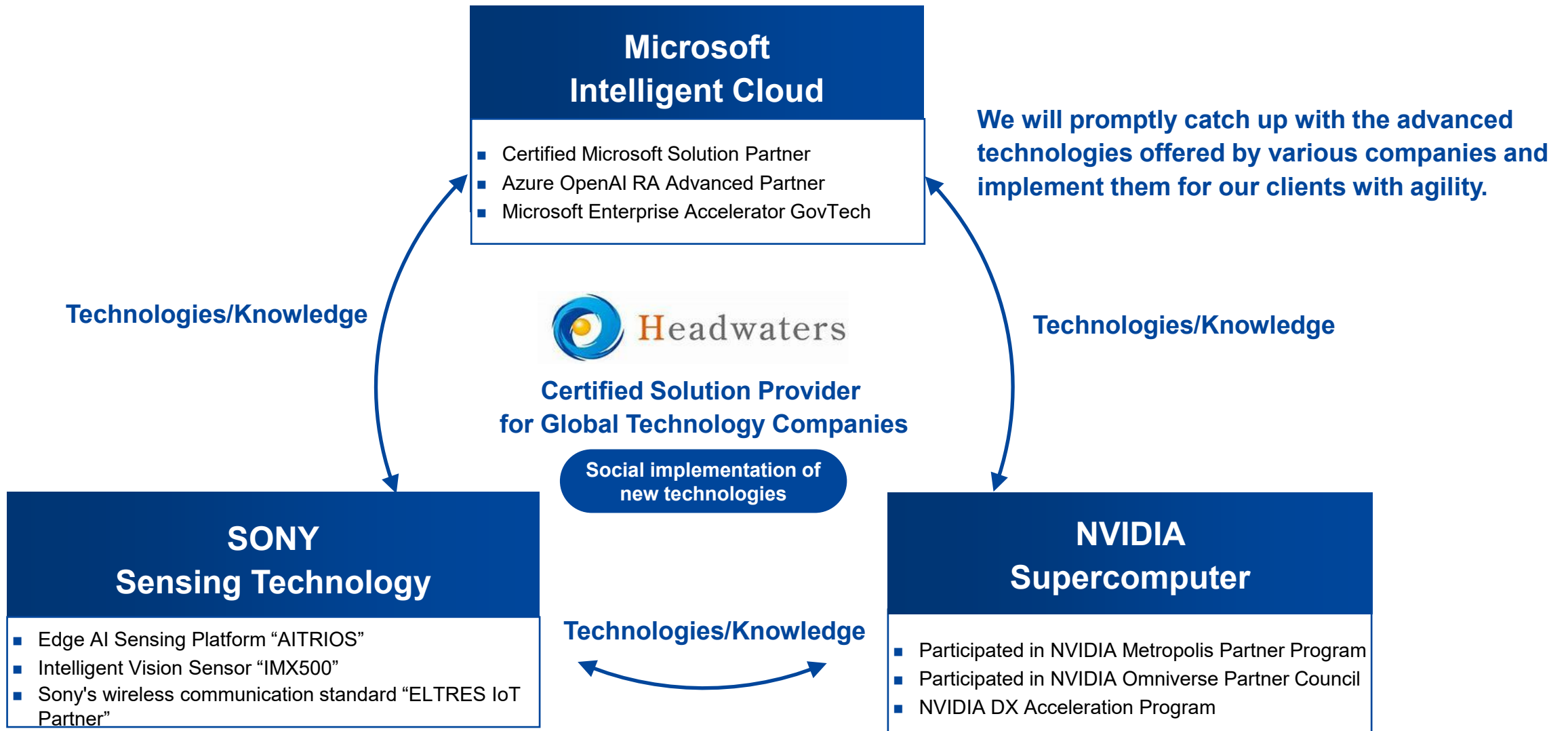
— Increase Recurring Revenue

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

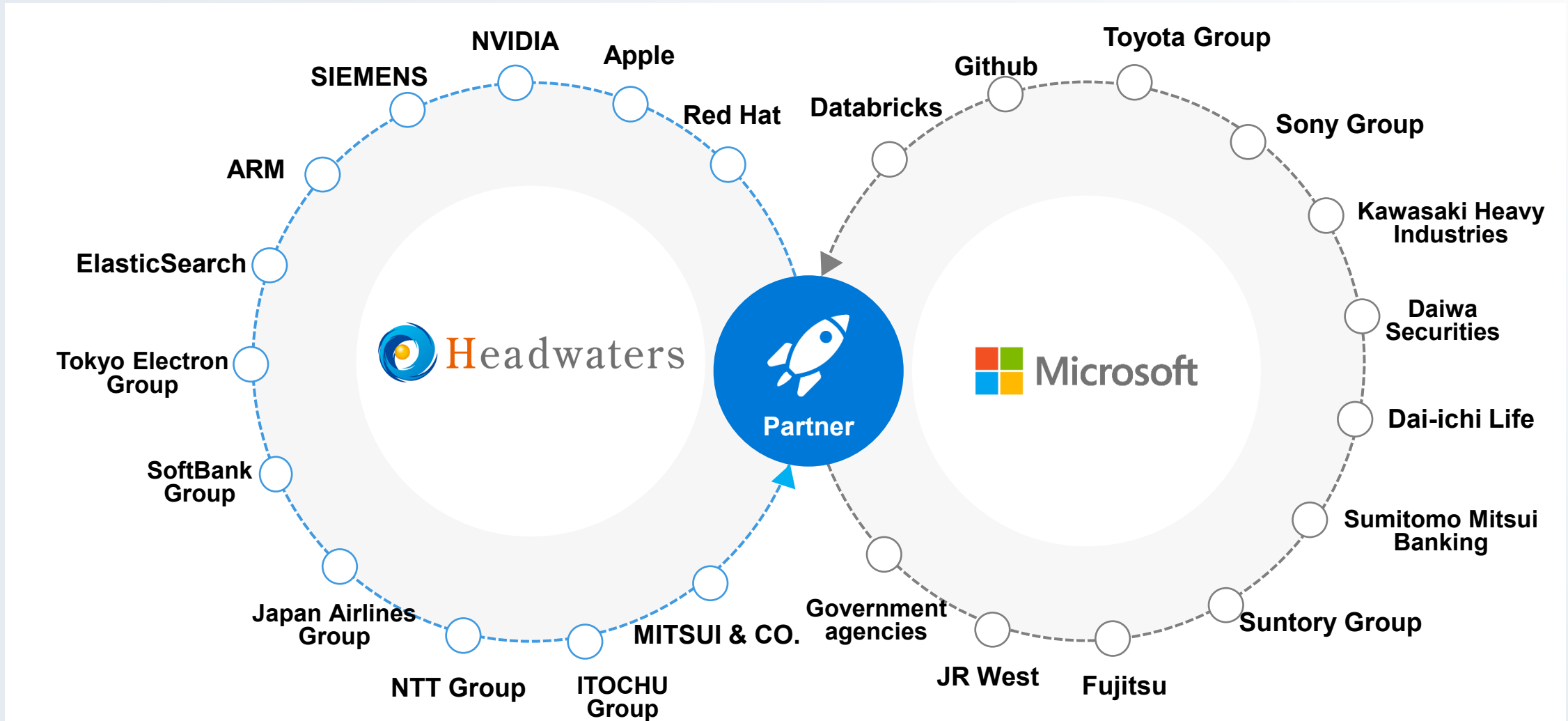
— New Sources of Revenue

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."



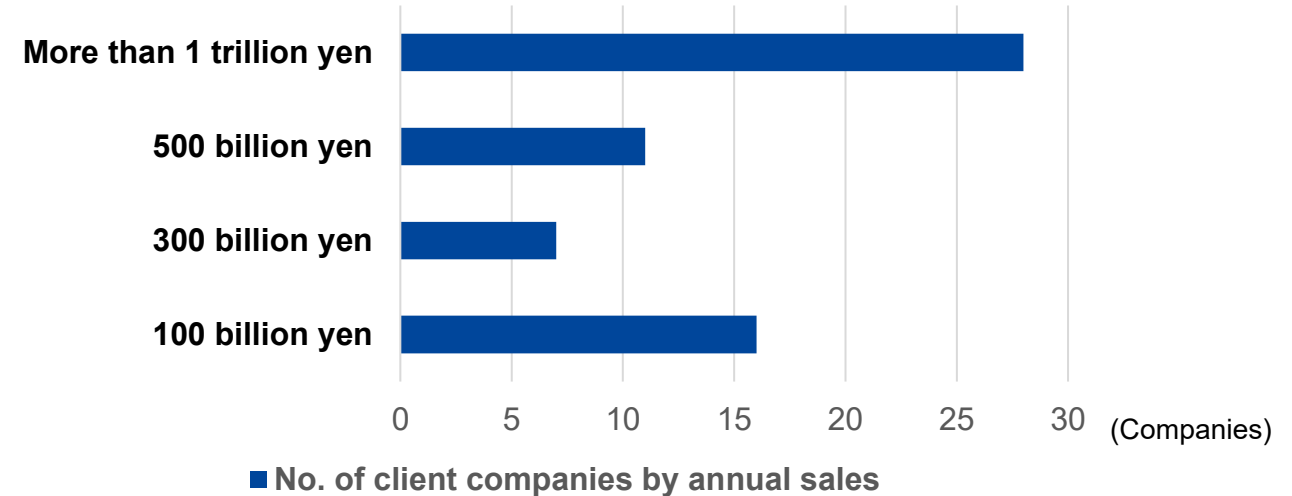


Companies with
annual sales over
1 trillion yen:

28

(Client companies: **112**)

FY2025 Client Company Business Volume



- 28 (25%) of the 112 client companies have annual sales of more than 1 trillion yen.
- Increasing number of client companies with sales of more than 1 trillion yen in Japan; more loyal clients by developing new businesses for clients.
- Already several new clients in FY2025 2H 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.



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 Corporation
- Hitachi Construction Machinery Co., Ltd
- Kubota Corporation
- Mitsubishi Chemical Corporation
- FUJIFILM Corporation
- Panasonic Connect Co., Ltd.
- NIKON CORPORATION
- JGC CORPORATION
- Dai Nippon Printing Co., Ltd. *
- Tokyo Electron Limited *
- Idemitsu Kosan Co., Ltd. *

Transportation/Automobile

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

Robot

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

Consumer goods

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

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.
- SoftBank Corp.

Real Estate/Construction

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

Finance/Insurance

- Daiwa Securities Co. Ltd.
- Nippon Record Keeping Network Co., Ltd.
- Meiji Yasuda Life Insurance Company
- Prudential Life Insurance Co., Ltd.
- Seven Bank, Ltd.
- The Dai-ichi Life Insurance Company, Limited *
- The Dai-ichi Life Techno Cross Co., Ltd. *
- DAIDO LIFE INSURANCE COMPANY *
- Sumitomo Mitsui Banking Corporation *

Retail/Distribution

- Lawson, Inc.
- 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 six months.)

03 — Core Business Progress and Strategic Alliances and Other Strategies for Growth

AI systems are used as substitutes for users for self-reliant decisions and actions for accomplishing goals. Headwaters can determine the best actions to reflect changes in the business climate and other factors. This allows using generative AI and machine learning to complete advanced tasks and help reach the right decisions.

Global AI agent market forecast



Japan AI agent platform market forecast



■ Drivers of growth

- Help for problems created by Japan's labor shortage due to aging population
- Services for the DX and higher efficiency
- Improvement of generative AI performance
- Increasing public-sector use of AI agents

■ Major applications

1. Customer support
2. Financial services (examinations, responses)
3. Manufacturing/logistics (detection, optimization)
4. Government/education (information, lessons)

Source: Global market: Markets and Markets / Alvarez & Marsal, 2024

Japanese market: Compiled by Headwaters based on the "2025 Total Research on the Growing AI Market through Generative AI and LLM" by ITR



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 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



Six Headwaters engineers received a 2025 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.

– Use of an AI agent for new experiences for customers –

Headwaters 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. This AI agent made it possible to give customers an entirely new experience.

Headwaters and Daiwa Securities used generative AI technologies for the development of an AI core agent and applications. The start of Japan's revised NISA (Nippon Individual Savings Account) program is bringing in a broader range of individual investors. This agent provides support for investment decisions that customers can trust. In addition, by supplementing conventional call center operations, this service improves the quality of services while boosting the efficiency of responses to customer inquiries.



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

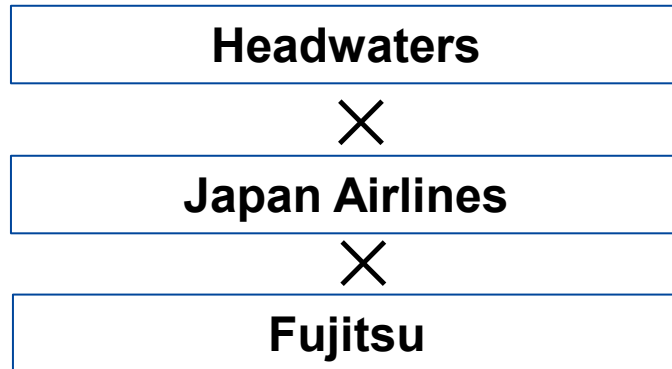
AI に GOGO!
0120-81-22-55
【平日】8:00～18:00 (土・日・祝日・年末年始を除く)

※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



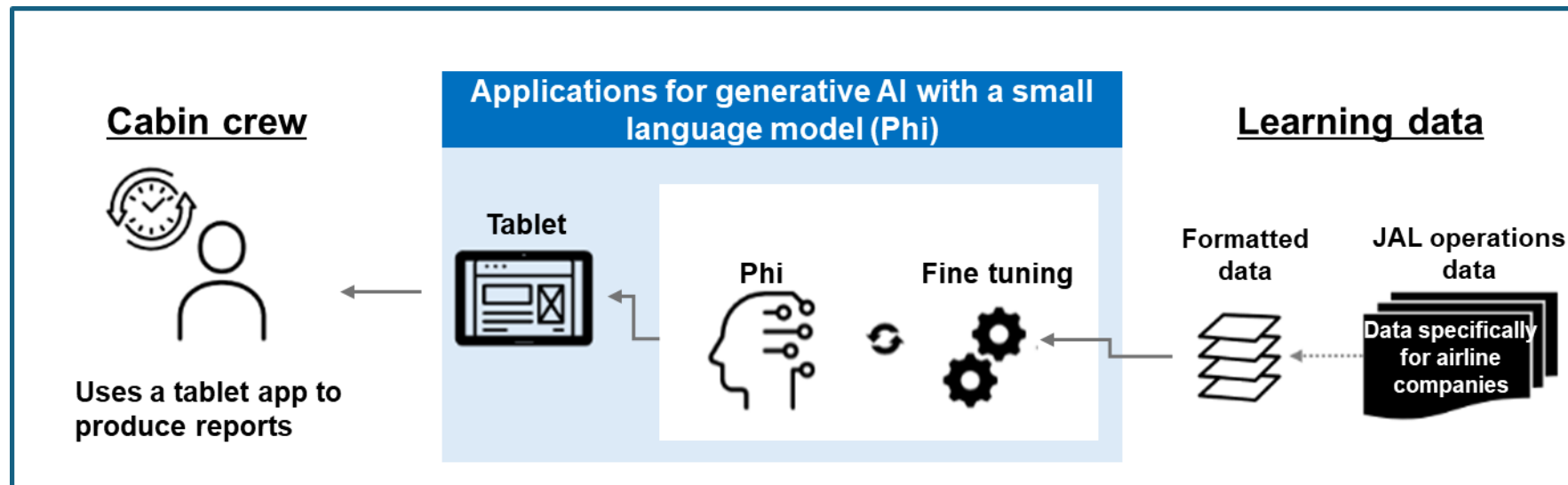
▲ Excerpt from Headwaters' generative AI presentation at Microsoft Japan's event

Cabin crew SLM x Generative AI/AI agent support for operations



To increase the efficiency of cabin crew tasks, Japan Airlines started the trial use of generative AI/AI agents that utilize a small language model (SLM). This service combines Fujitsu's operational expertise, Headwaters' generative AI platform "SyncLect Generative AI" and the Azure OpenAI Service, for assistance with making the workflow of the cabin crew more efficient

The aim of this demonstration trial was to lower the volume of daily operations including tasks required before and after a flight, such as organizing work data, preparing for in-flight services, and records concerning services for passengers. Using AI created an environment for a smooth workflow of the cabin crew's tasks. Headwaters plans to slowly enlarge the scope of applications for AI agents using the properties of an SLM to further increase the quality of in-flight services and create a more pleasant work environment for the cabin crew.



▶ Generative AI / AI Agent (Example-2): Fujitsu

Generative AI x Declarative AI agents for presentation automation (Fujitsu AI Auto Presentation)

Headwaters

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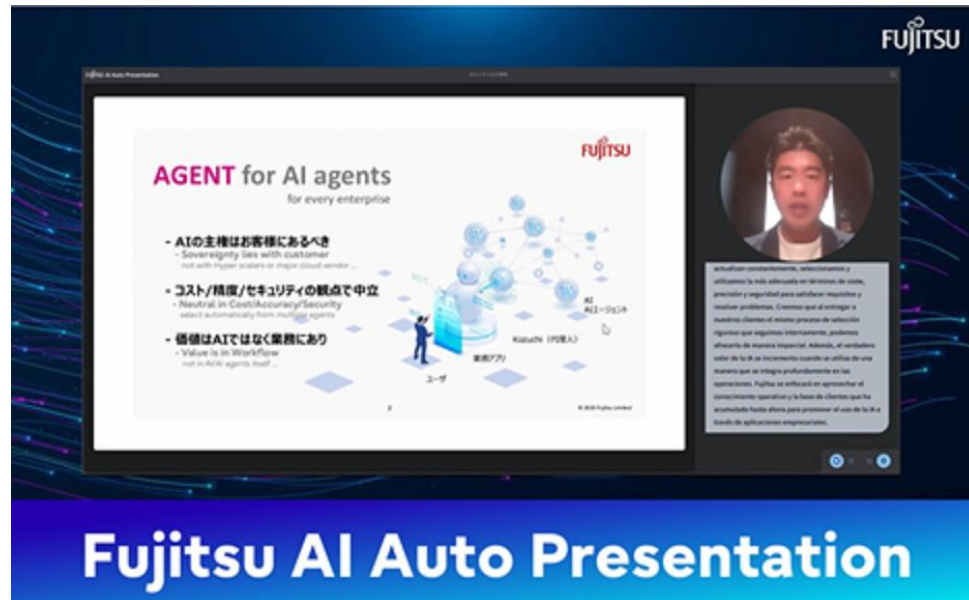
Fujitsu

Automated presentation using AI avatar

Automated production of text and voice directly from documents

Linkage with Microsoft 365 Copilot

Much faster production of presentations and higher quality



Fujitsu and Headwaters developed Fujitsu AI Auto Presentation, which automates the production of presentations given by avatars and can answer questions from viewers. This system is based on the Fujitsu Kozuchi AI service and incorporates the declarative agent that can be used with Microsoft 365 Copilot. The system can produce text and audio for presentations directly from the reference materials. Automated presentations are performed by AI avatars based on the appearance and voices of users.

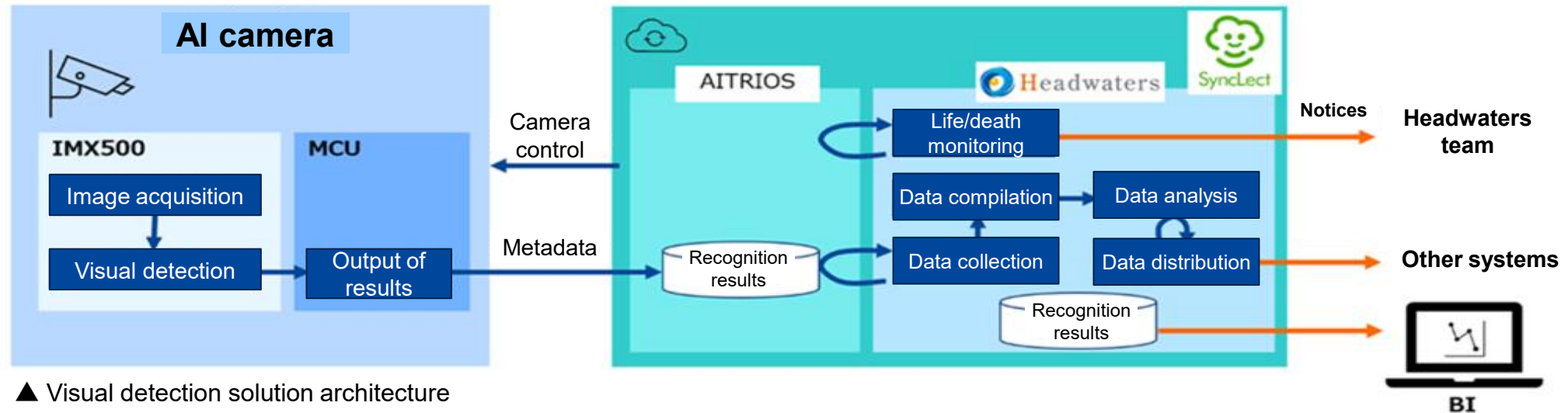
Headwaters was responsible for developing the Copilot agent, explanation text production and voice synthesis using Azure OpenAI/Speech Service, the acquisition of documents by using a Graph API link, and the AI avatar integrated output. This automated system reduces time and the volume of work needed to create presentations while improving quality and ensuring the consistent provision of information to audiences. Trial use of this system by Headwaters began in the 2Q of 2025 and the plan is to start providing this system to companies in the 3Q.

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

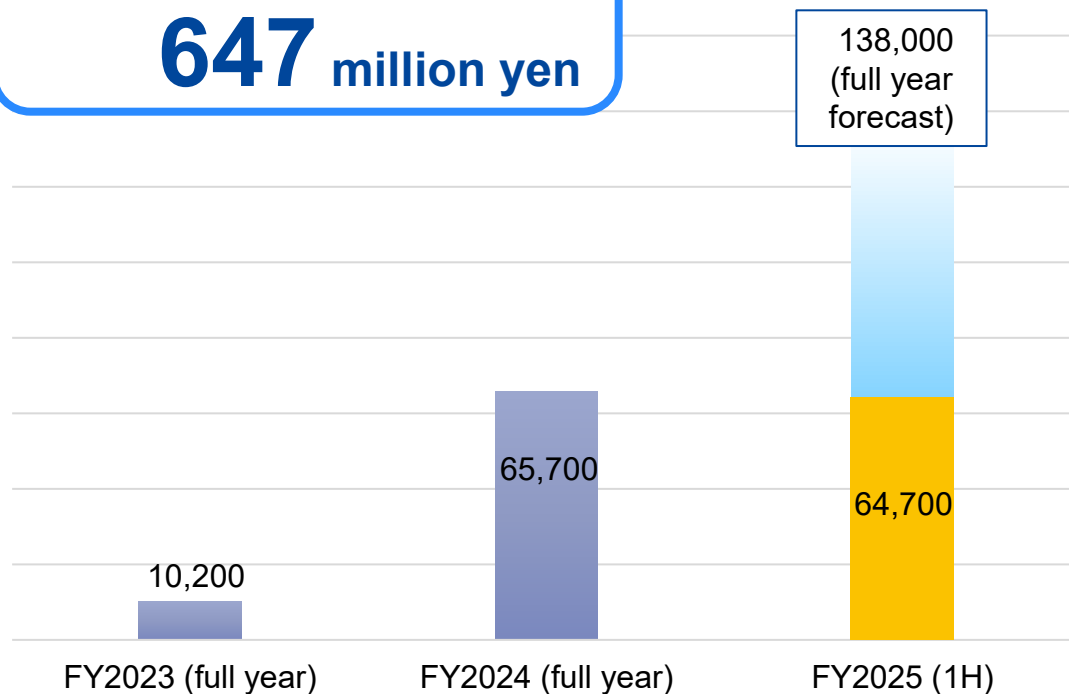
- Headwaters sales in the generative AI / AI agent category are climbing as the entire generative AI / AI agent market grows.
- In FY2025 1H, generative AI sales were about 647 million yen, which was 63% of total AI sales of about 1,030 million yen.

Generative AI / AI Agent Sales

Net sales (FY2025 1H results)

647 million yen

(10 thousand yen)



Outlook for the Generative AI Market

- Full-scale use of AI agents
→ Able to perform complex tasks autonomously and respond to instructions from people
- Use of MCP (Model Context Protocol)
→ Standardization of linkage of different systems for higher efficiency and a more powerful data integration analysis capability
- Increasing importance of multi-AI agents
→ Multi-AI use for handling of complex tasks and the optimal use of specialized AI
- Faster integration with the operations of clients
→ Integration with mobile and smart devices
→ Easier to use due to user interface upgrades
→ Investments for advanced technology use involving mobility, manufacturing, communications, finance and other industries
- Progressing to specialized models
→ Rapid increase of specialized generative AI models for the medical, legal, financial and other sectors
→ Specialized AI with outstanding accuracy regarding knowledge and rules of specific industries
→ Self-reliant AI tools: Auto-coding (AI-driven development) of development tasks

Issues

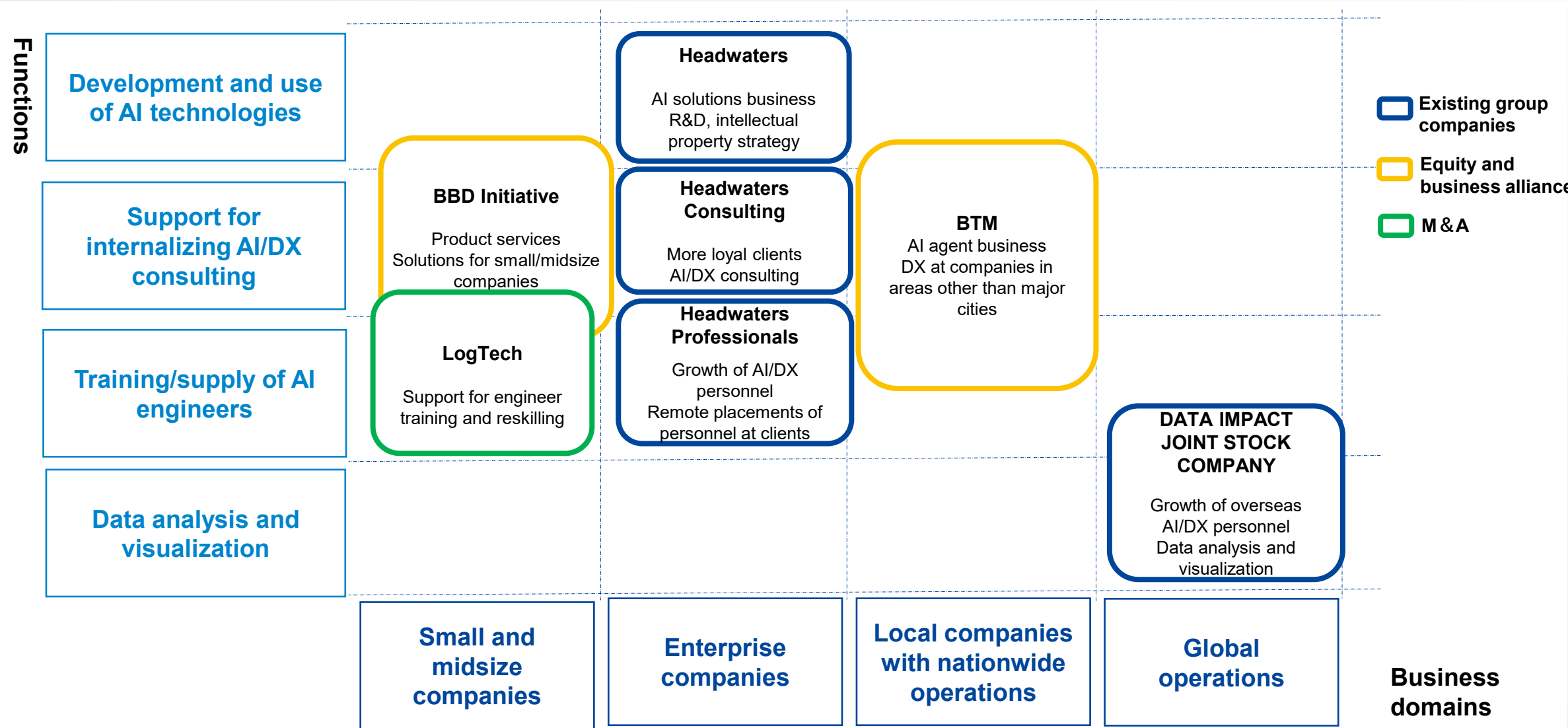
Energy efficiency, cost efficiency, trust issues, privacy issues, need for a platform for the AI decision making process, intellectual property rights, and other issues

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



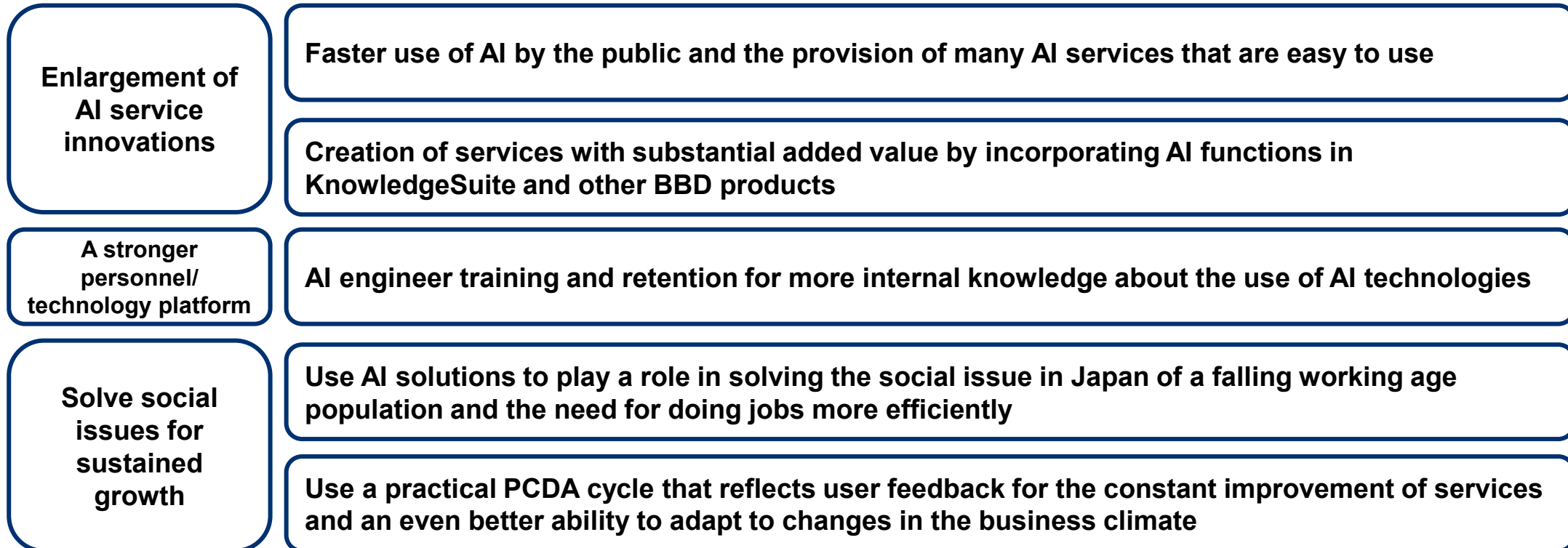
Headwaters Alliance Partners and Affiliated Companies

Anticipate even more collaboration synergies regarding both business domains and functions



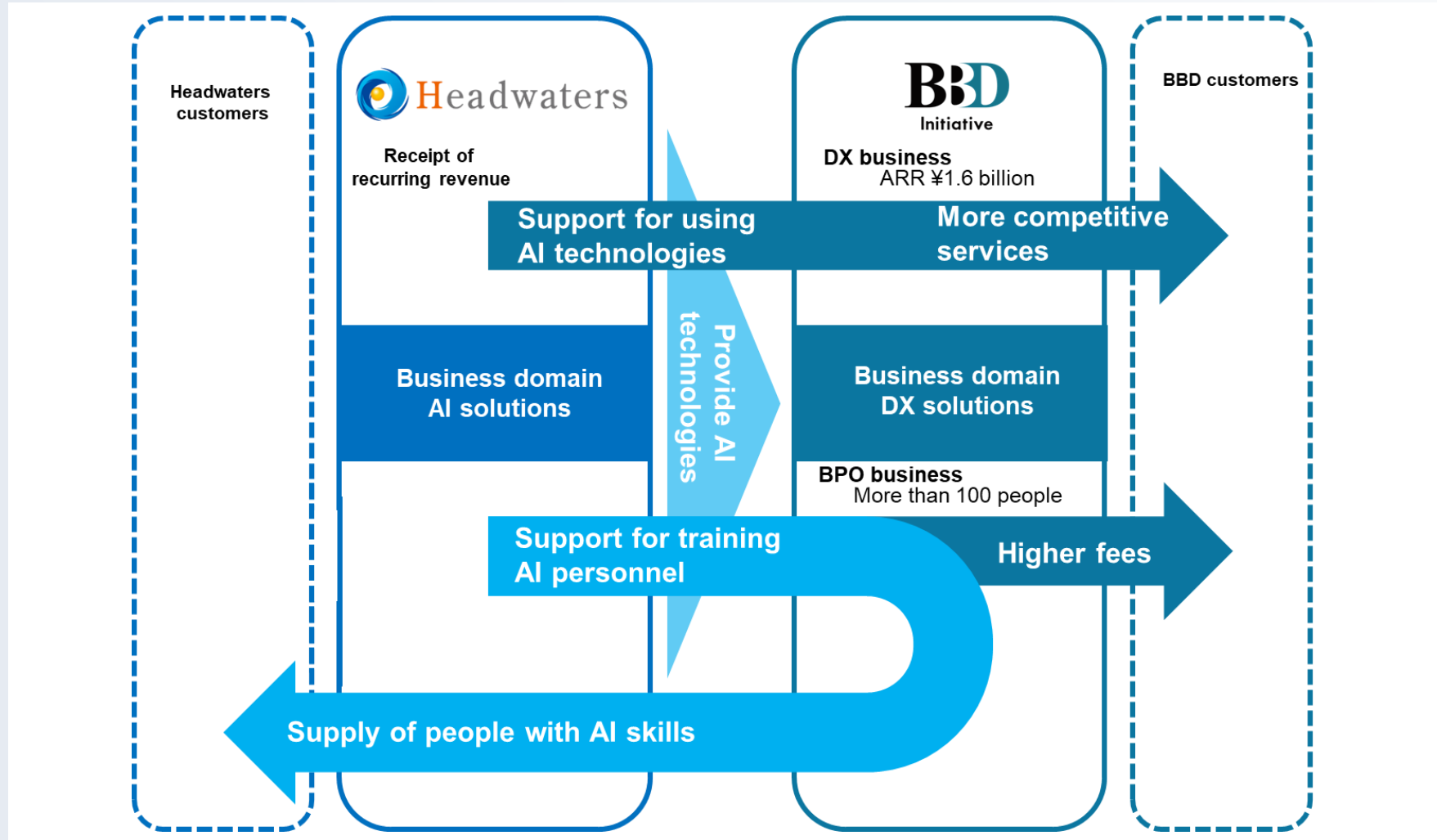
▶ Strategic Equity and Business Alliance with BBD Initiative

The Headwaters-BBD Initiative alliance creates a platform for a pleasant and stimulating environment where people encompassing many skills can work together. The goals are to drive progress in many industries by providing the best possible solutions for clients and to become the largest AI solution partner in Japan.



▶ Strategic Equity and Business Alliance with BBD Initiative

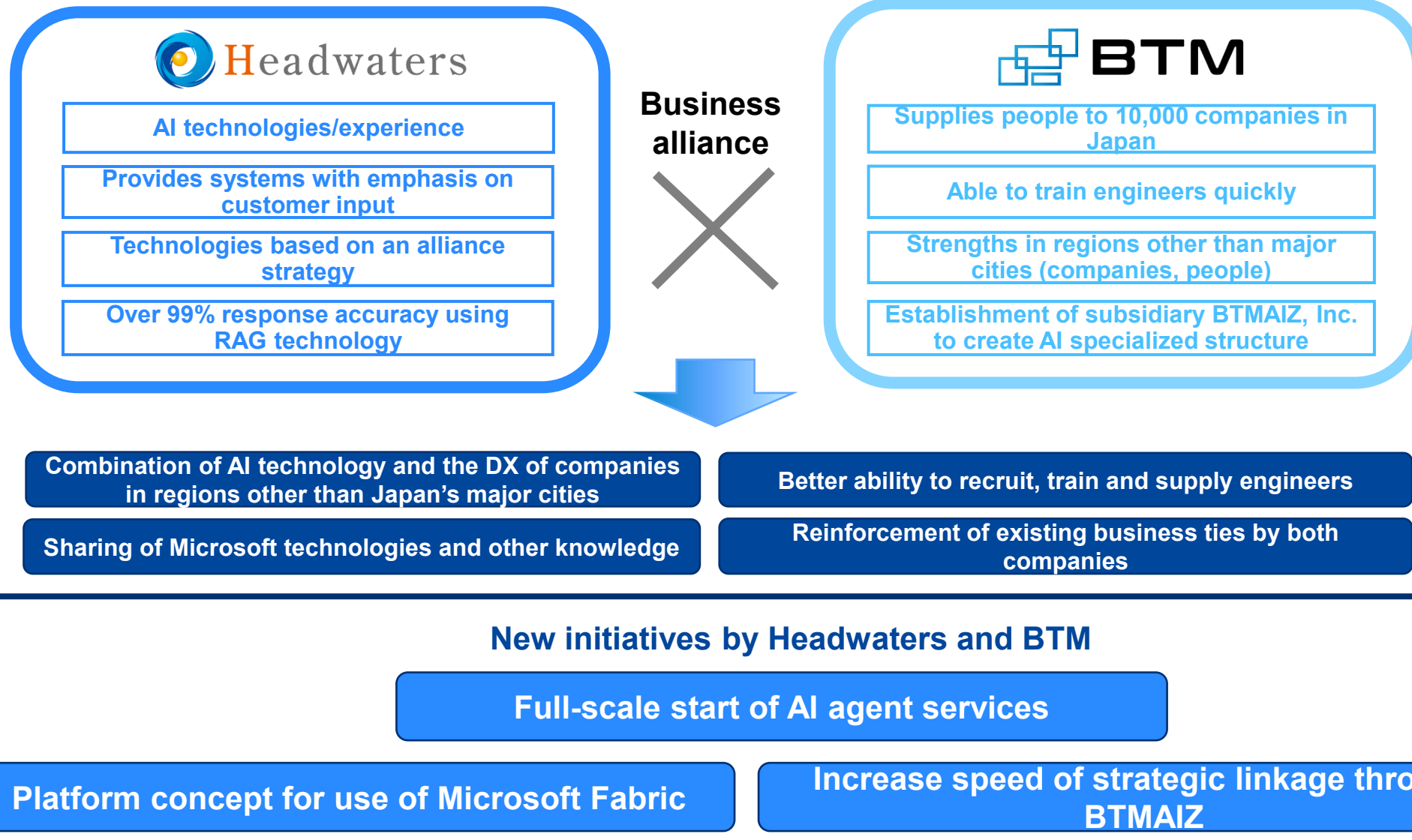
The Headwaters-BBD Initiative alliance creates a platform for a pleasant and stimulating environment where people encompassing many skills can work together. The goals are to drive progress in many industries by providing the best possible solutions for clients and to become the largest AI solution partner in Japan.



The acquisition of LogTech, now a consolidated subsidiary, gives Headwaters a stronger base for upgrading the AI solutions business and for its consistent growth.



Stronger HR platform	LogTech's engineer education program will be used for reskilling and skill tuning for maintaining a workforce with a broad range of skills
Technological skills	The sharing of Headwaters AI technologies and the use of an education curriculum will increase practical skills and AI literacy of the workforce
Project execution	Better ability to assign the required people to the growing number of AI projects as the demand for AI increases
Use of cross-selling for growth	Sales growth and higher productivity by using the Headwaters and LogTech sales networks for cross-selling
Create value for customers	Solve customers' problems and improve profitability by using X-Tech Hands-on Work to speed up the use of generative AI and AI agents





Medium/Long-term Growth Plan with a Prime Market Listing Goal

A growth strategy centered on (1) one-stop solutions in the AI/data platform domain, (2) the use of AI-driven development for higher profitability, and (3) investments in our people. The goals are growth much faster than the average expansion of the AI market and a Prime Market listing.

Use strategic
alliances for
expansion



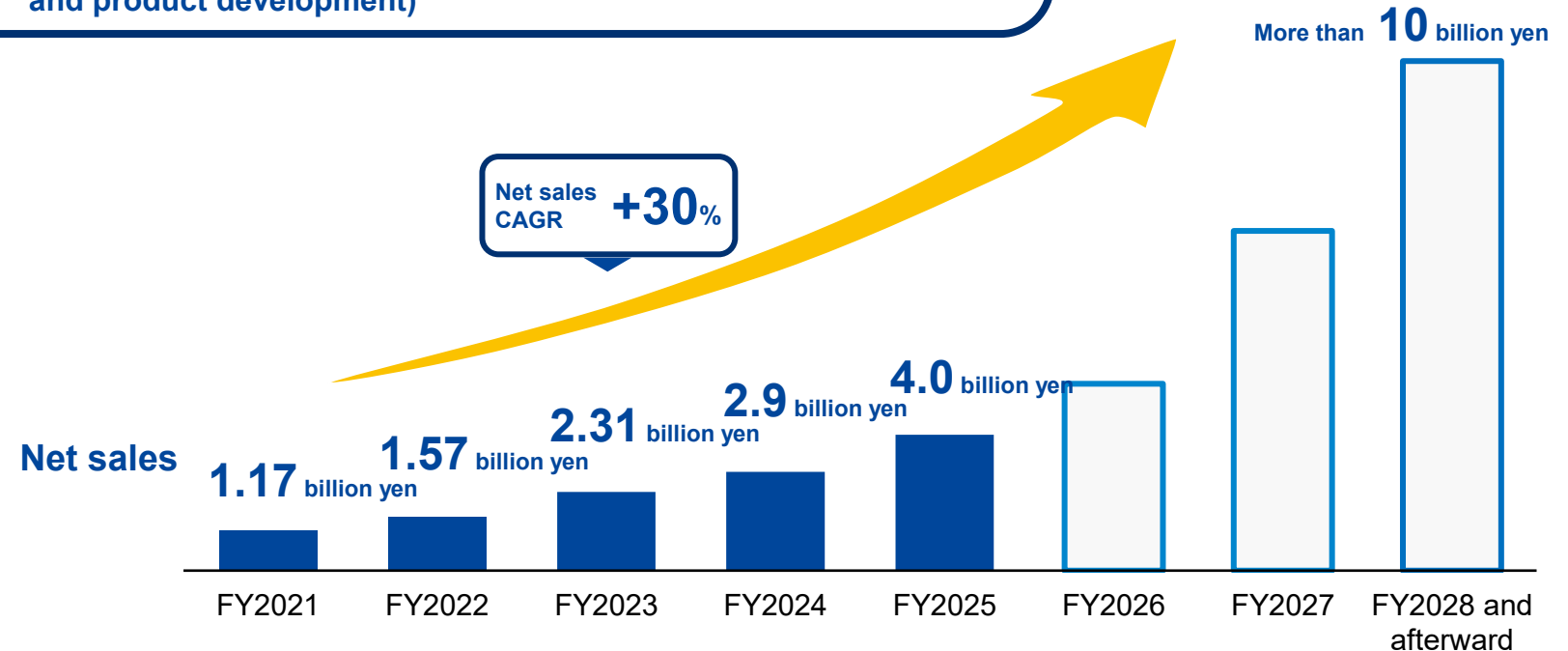
Organic business
growth



Plan for medium/long-term
growth

Expansion using strategic alliances

- Strengthen AI for specific industries; more joint business activities
- More M&A/partnerships for even faster growth
- Use the loyal client strategy to add more clients and develop new businesses for existing clients
- Use joint activities to build a stronger organizational platform (HR and product development)





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

- Use AI-driven development (vibe coding) for higher profitability of individual development steps
- 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

- Use M&A for business domain and HR expansion and upgrades as well as the creation of synergies and new working styles
- 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

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



Use vibe-coding and AI agents for a productivity revolution

Performance

30-92%

Reduction in steps

20-30%

AI code generation
ratio

2023

Start of company-
wide use

44.8%

Market CAGR
forecast*

Initiatives

2023 Started GitHub Copilot use and
verifications company-wide

2024 Started an AI-driven development team and
received verification results

2025 Started a CoE service and received orders
from large companies

Activities for AI-driven Development

AI-driven development is a revolutionary method that uses AI technologies in the software development process for automated code generation and testing, assistance for the analysis of requirements, and other tasks.

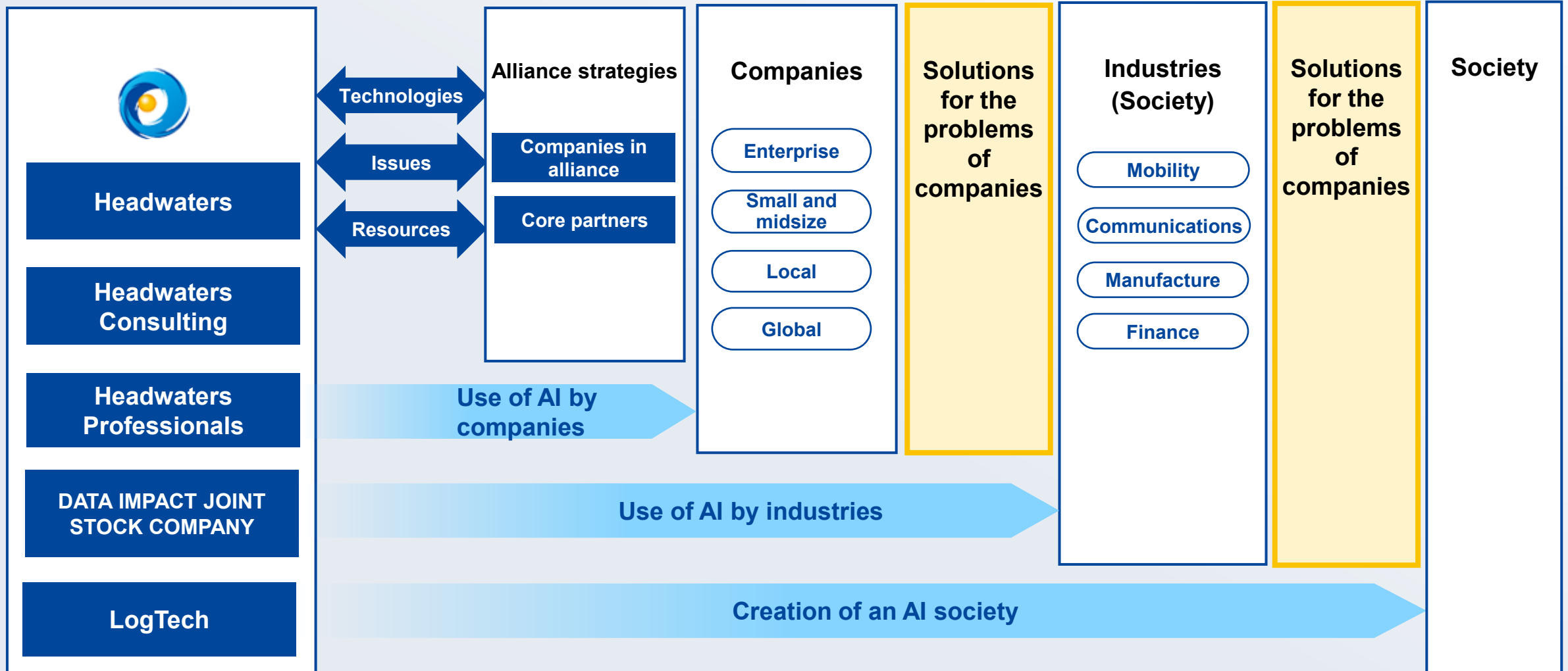
Headwaters uses GitHub Copilot, Devin, Windsurf and other advanced AI tools for the use of AI agents for every development step from code generation and testing to the production of documents.

Goals

- AI native company
→ Market positioning strategy
- Highest possible efficiency
→ Clearly defined approach for higher earnings
- Workforce skills x AI-driven development
→ Sales growth and skill upgrading strategy
- SyncLect AI Agent
→ Larger breadth of services for clients

*Global AI Agent Market Forecast 2024-2029 Source: Global market: MarketsandMarkets / Alvarez & Marsal, 2024

Establish a base for extremely close communications with industries and companies for the creation of an AI society.



—Appendix

■ Headwaters launches an AI agent solution using NTT's "tsuzumi" LLM on Microsoft Azure (January 6)

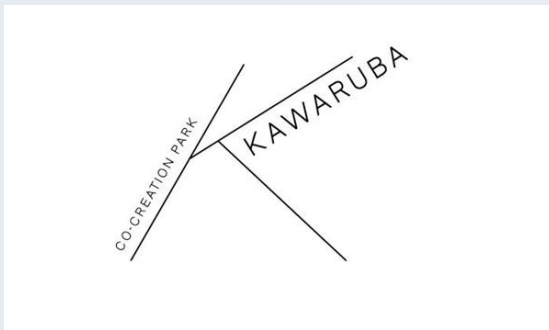
- Headwaters started providing to clients an AI agent solution that uses the NTT "tsuzumi" large language model on Microsoft Azure. With excellent Japanese language processing capabilities, this solution can meet the needs of companies that require a Japanese model.
- Due to the increasing use of generative AI in Japan, demand is increasing for precise Japanese language capabilities and a Japanese model that companies can use with confidence. To meet this demand, the decision was made to use "tsuzumi" on a platform consisting of technologies created by the Azure OpenAI Service. Using NTT's natural language processing technology backed by 40 years of experience made it possible to provide a small yet multimodal AI agent solution.
- This solution has a RAG structure with embedded business process knowledge, chunking processing and fine tuning for greater precision, a multi-AI agent, a dialogue agent with voice compatibility, and an LLMs for coverage extending to operational support. The result is more efficient business processes and higher quality.

■ Launch of the "SyncLect AI Agent" next-generation AI agent service (January 22)



- Headwaters started providing "SyncLect AI Agent" to clients on January 22. This multi-AI agent compatible platform is the successor to "SyncLect Generative AI."
- This new AI agent meets the need for the autonomous processing of complex business tasks that is difficult using a single model and the need for higher efficiency and lower expenses and the need for higher efficiency and lower expenses through 24-hour operation.
- Linking this complex AI agent with AutoGen allows outstanding customization, such as the reuse of templates stored in an Azure Cosmos DB.

- **Announcement of support for KAWARUBA, the Social Innovation Co-creation Park of Kawasaki Heavy Industries. Demonstration of solutions with a view toward realizing a hydrogen society and facilitating social robot-based social transformation (April 16)**



- Headwaters announced the support for Co-Creation Park-KAWARUBA, the social innovation co-creation base of Kawasaki Heavy Industries. Many companies work together at this location to develop next-generation technologies and demonstrate the ability of these technologies to solve social issues.
- KAWARUBA has the vision of creating a hydrogen society and a society that uses social robots. Headwaters plans to use AI technologies to play a role in the creation of a sustainable society.
- By using its AI solutions and services, Headwaters participate in demonstration trials and the development of solutions at the co-creation park for the purpose of assisting with creating innovative ideas for industrial and social infrastructures.

- **Release of the beta version of the Daiwa Lens App for smartphones in collaboration with the headquarters of Daiwa Securities Group (April 23)**

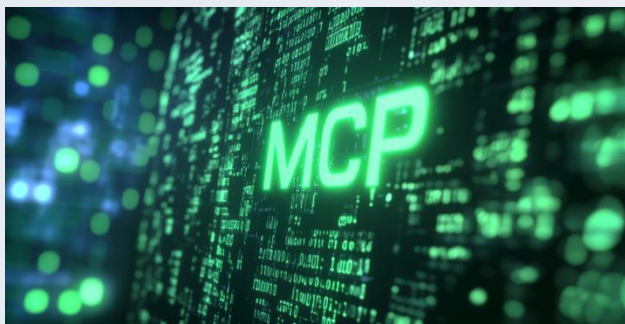


- Headwaters has released a beta version of the Daiwa Lens smartphone app by working with the headquarters of the Daiwa Securities Group and QUICK.
- The app uses a multimodal generative AI to identify companies associated with objects in photos. This allows immediately displaying stock prices and other information about these companies. Linking investments directly with photos showing ordinary activities of people and products gives even first-time investors an interest in the stock market.
- Highly accurate image analysis is made possible by using GPT-4o mini, a smaller OpenAI model. Matching of images and company information is very fast. Furthermore, the simple UI is easy to use even for beginners. Another feature is the use of a design that is intuitive and easy to understand rather than candlestick stock price charts.



FY2025 1H Main Topics (3)

- **Launch of the customized MCP Server Introduction Hands-on Lab Service for user companies of Microsoft Azure or Microsoft 365 Copilot that have introduced AI agent platforms or installed AI CoE (May 22)**



- Headwaters has launched a hands-on lab service for the use of customized MCP servers. The new service uses Microsoft Azure and Microsoft 365 Copilot.
- Many companies are seeking the best practice for starting the use of an AI agent. However, their understanding of MCP (Model Context Protocol) is often insufficient. As a result, there is a growing demand for the knowledge and technological assistance required to use an AI agent.
- Engineers and consultants specializing in this field work together to provide support extending from a basic understanding of MCP to the construction of a customized MCP server using Microsoft Azure. Assistance also extends to compatibility with a GitHub or multi-agent environment.

- **Co-development by Headwaters and Fujitsu of the Fujitsu AI Auto Presentation, a function for automating presentations using declarative agents (June 19)**



- Headwaters and Fujitsu have jointly developed Fujitsu AI Auto Presentation, an AI agent that can be used with Microsoft 365 Copilot.
- This AI agent meets the need for the easy production of presentations using AI avatars and for making business processes more efficient. Using this agent reduces the time needed to produce presentations and give explanations.
- Users can use the chat function to create an AI avatar based on a face and voice. Slides and languages can be designated. The resulting presentation uses an avatar to give explanations based on AI-created text. In addition, presentations can be automatically switched in accordance with time allocations. This service uses 30 languages and supports question-and-answer sessions. Compatibility with Microsoft Teams and PowerPoint is planned.



List of Topics (1)

No.	Title	Category
1	Headwaters launches an AI agent solution using NTT's "tsuzumi" LLM on Microsoft Azure	Generative AI/AI Agent
2	Edge-AI-Based Cargo Handling Time Management Solution co-developed with Sony Semiconductor Solutions exhibited at Smart Logistics EXPO	Edge AI
3	Headwaters and Databricks established Databricks GenAI LAB to strengthen collaboration in generative AI and data infrastructure	Partnerships
4	Launch of the "SyncLect AI Agent" next-generation AI agent service	Generative AI/AI Agent
5	Strengthened collaboration with Secure Inc. to jointly develop AI agent-based surveillance camera solutions	Generative AI/AI Agent
6	Approach and Policy regarding Reduction of Minimum Investment Unit	IR Activities
7	Notice of Difference Between Forecast and Actual Results, and Recording of Non-operating Expenses (Derivative Valuation Gain)	IR Activities
8	Consolidated Financial Results for the Fiscal Year Ended December 31, 2024 (Under Japanese GAAP)	IR Activities
9	Financial Supplementary Materials for FY2024	IR Activities
10	Notice Regarding Change of Certified Public Accountants	IR Activities
11	Conducted edge AI validation using SLM, Microsoft IoT Edge, and Fine-Tuning in collaboration with Tokyo Electron Device	Edge AI
12	Extraordinary Report	IR Activities



List of Topics (2)

No.	Title	Category
13	Notice of Receipt of Notification Regarding Rejection of Registration of Accounting Auditor on the List of Auditors for Listed Companies, Etc.	IR Activities
14	Launch of Agentic RAG service enabling autonomous AI through the integration of AI agents and business data	Generative AI/AI Agent
15	Result of Operations for FY2024	IR Activities
16	Notice of the Annual General Meeting of Shareholders and Meeting Materials for FY2024	IR Activities
17	Launch of Agentic Voice RAG, an AI agent service powered by GPT-4o Realtime API	Generative AI/AI Agent
18	[Delayed] Financial Supplementary Materials for FY2024	IR Activities
19	[Delayed] Consolidated Financial Results for the Fiscal Year Ended December 31, 2024	IR Activities
20	Supported the operation of Mobile App Contest 2024 organized by the Tokyo Metropolitan Board of Education	DX
21	[Delayed] Results of Operations for FY2024	IR Activities
22	Headwaters and Fujitsu conduct PoC for task-specific on-device generative AI solution to streamline report creation by Japan Airlines cabin attendants	Generative AI/AI Agent
23	Extraordinary Report	IR Activities
24	Securities Report — 20th Fiscal Period (January 1, 2024-December 31, 2024)	IR Activities



List of Topics (3)

No.	Title	Category
25	Articles of Incorporation (as of January 1, 2025)	IR Activities
26	Matters Concerning Controlling Shareholders, Etc.	IR Activities
27	Business Plan and Growth Potential	IR Activities
28	[Delayed] Fujitsu and Headwaters trial on-device generative AI solution to streamline JAL cabin crew workflows	Generative AI/AI Agent
29	Notice Regarding Issuance of New Shares as Restricted Shares to Directors of the Company	IR Activities
30	Announcement of support for KAWARUBA, the Social Innovation Co-creation Park of Kawasaki Heavy Industries Demonstration of solutions with a view toward realizing a hydrogen society and facilitating social robot-based social transformation	Partnerships
31	Notice regarding certification as 2025 Health & Productivity Management Outstanding Organization (Large Enterprise Category)	Sustainability
32	Introduction of the Resort Worx welfare service to diversify workstyles and improve employee satisfaction	Welfare Program
33	Release of the beta version of the Daiwa Lens App for smartphones in collaboration with the headquarters of Daiwa Securities Group	DX
34	Start of MCP-based collaboration in SyncLect AI Agent, a microservice type AI agent platform, to enable collaboration with external services	Generative AI/AI Agent
35	Notice Regarding Completion of Payment for Issuance of New Shares as Restricted Stock Compensation to Directors of the Company	IR Activities
36	Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2025 (Under Japanese GAAP)	IR Activities



List of Topics (4)

No.	Title	Category
37	Financial Supplementary Materials for the First Quarter of FY2025	IR Activities
38	Inclusion of Stripe Agent Tool Kit in the service lineup as an AI-driven payment agent solution —Accelerates DX through a payment agent that facilitate the fusion of AI and payment processes—	Generative AI/AI Agent
39	Provision of support to Tokyo Metropolitan Government in construction of a support system for preparation of environmental reports on buildings —Supports efforts aimed at facilitating administrative DX and environmental measures by leveraging Microsoft Azure / Microsoft Power Platform—	DX
40	Development of an app to support the introduction of management in the Shielding Mulch Cultivation (NARO S. Mulch) high-quality citrus fruit production technology	DX
41	Launch of the customized MCP Server Introduction Hands-on Lab Service for user companies of Microsoft Azure or Microsoft 365 Copilot that have introduced AI agent platforms or installed AI CoE	Generative AI/AI Agent
42	Collaboration with Delivery Consulting —Launched support services to maximize the effectiveness of introduced AI agents based on data literacy engineering—	Generative AI/AI Agent
43	[Delayed]Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31,2025	IR Activities
44	[Delayed]Financial Supplementary Materials for the First Quarter of FY2025	IR Activities
45	Strengthening of the development of industry-specific AI agents, SLM and Agentic RAG through data-centric AI approaches in collaboration with FastLabel	Generative AI/AI Agent
46	Co-development by Headwaters and Fujitsu of the Fujitsu AI Auto Presentation, a function for automating presentations using declarative agents	Generative AI/AI Agent
47	Launch of the AI-Driven Development/Vibe Coding CoE Service to support AI agent-based autonomous software development	Generative AI/AI Agent

▶ Sustainability Policy and Materiality

— Basic Policy for Sustainability

Headwaters bases operations on the corporate philosophy of “social implementation of new technologies.” We are determined to use AI and digital technologies to contribute to the realization of a sustainable society. Our mission is to use our technological skills to solve social issues and to work with all stakeholders for the creation of a sustainable society.

— Digital Innovation for Sustainability

By fully utilizing the potential of AI and digital technologies, Headwaters is playing a key role in the digital transformation of society by contributing to the accomplishment of the Sustainable Development Goals.


















Basic goals

- Responsible development and provision of AI
- Maximization of the value of people
- Sustainable operation of businesses
- Co-creation with all stakeholders
- Help solve social issues

Key issues (Materiality)

- Ethical use of AI and social responsibilities
- Recruiting and training of people with technical skills
- Ensuring information security and privacy
- Actions to combat climate change and to increase energy efficiency
- Inclusive workplaces and health management

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

Ethical AI and social responsibilities	<p>The trustworthy use of AI with transparency and responsibility. Contributions to solving social issues.</p>	  
Create new business value	<p>Use new technologies and AI/DX education programs for creating new forms of value in business operations. Offer new services that contribute to society</p>	 
Diversity/Working style reforms	<p>Support diversity and health management, and provide flexibility regarding how people do their jobs More programs to enable employees to do their jobs while taking time off for a birth, child care, elderly parent care or other family responsibilities</p>	  
Fair and ethical business activities	<p>Increase soundness of governance, strict adherence to business ethics Extensive information disclosure and dialogues; compliance with code of conduct; more effective Board of Directors</p>	
Co-creation of value with business partners	<p>Goals are solving social issues and adding more business domains Strategic investments that use alliances and M&A</p>	  
Protection of the environment	<p>A commitment to supplying services with a small environmental impact and lowering CO2 emissions</p>	  
Education programs	<p>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</p>	 

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 “Tabenate” app for reduction of food loss

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
- Obtained the Silver Certification for being healthy companies
- Certification as 2025 Health & Productivity Management Outstanding Organization
- Easy (housework service to support employees)
- Resort Works (a workation program for flexible working styles)



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

(Thousand yen)

FY2023 Sales: 2,315,088

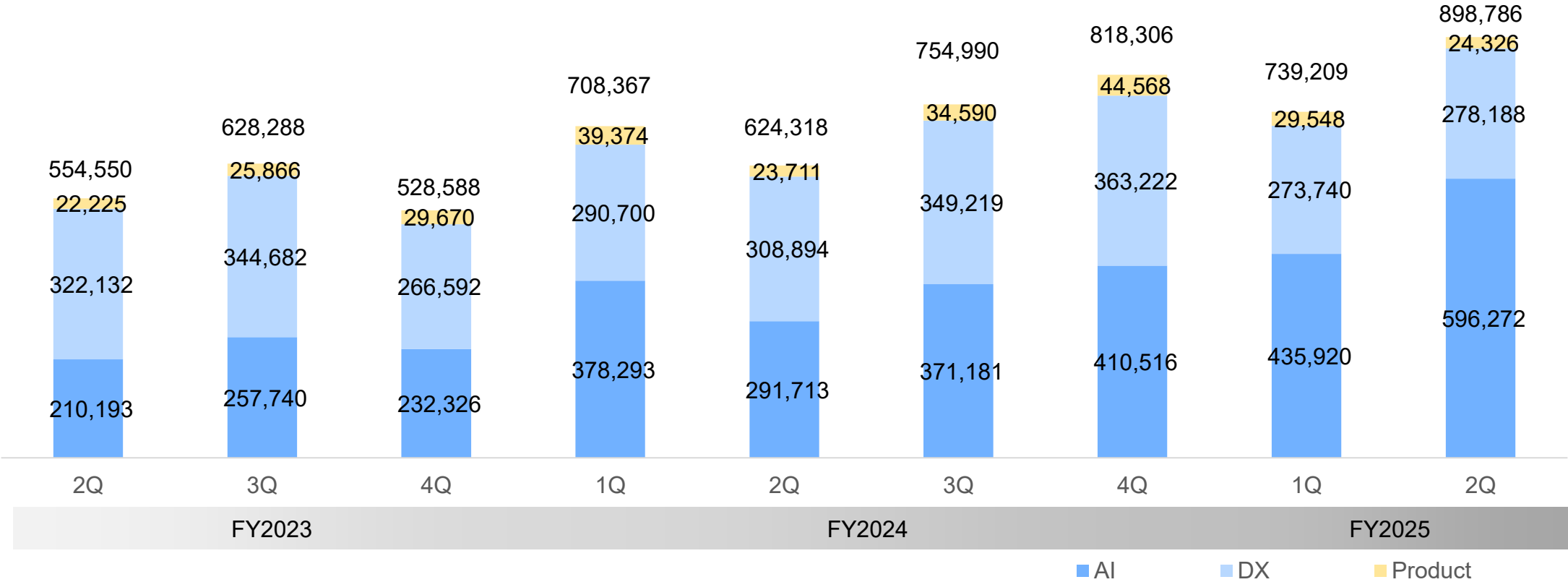
FY2024 Sales: 2,905,981

FY2025 1H Sales: 1,637,995

YoY: 122.9%

YoY for the Quarter: 144.0%

QoQ: 121.6%





Cost of Sales by Service Category

(Thousand yen)

FY2023 Cost of Sales: 1,459,999

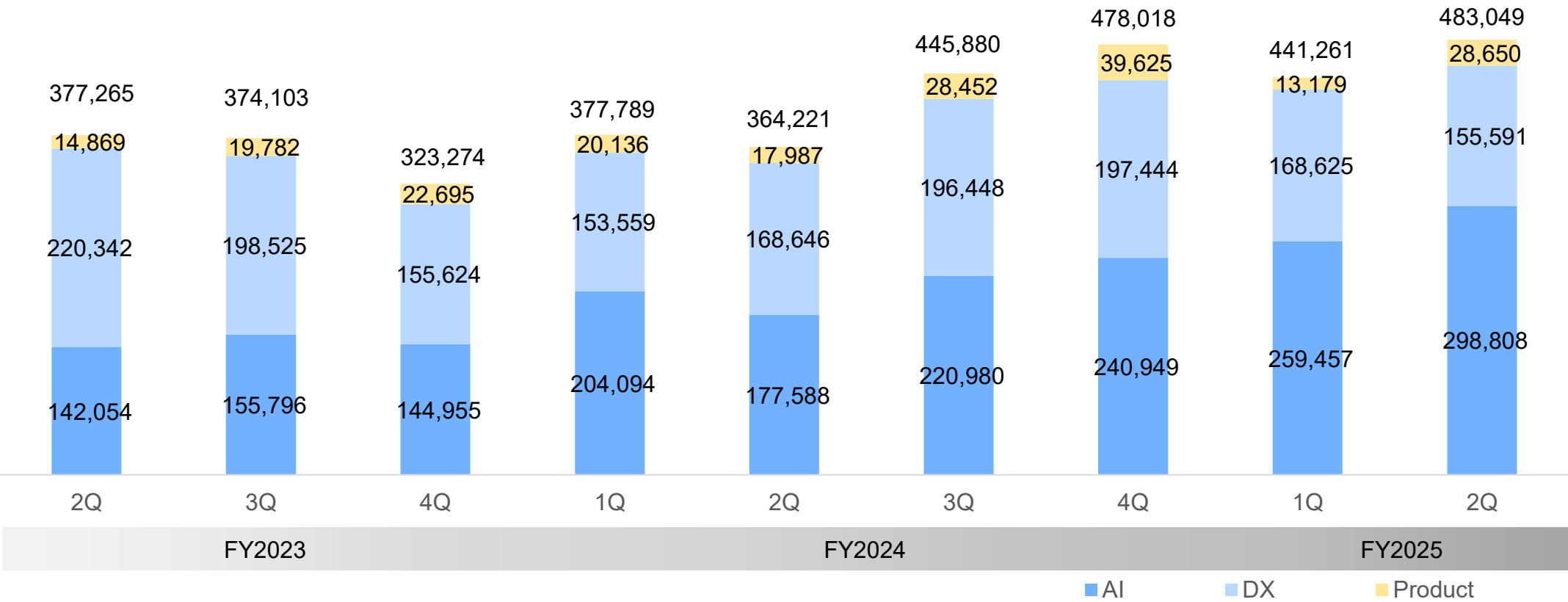
FY2024 Cost of Sales: 1,665,908

FY2025 1H Cost of Sales: 924,310

YoY: 124.6%

YoY for the Quarter: 132.6%

QoQ: 109.5%





Gross Profit by Service Category

(Thousand yen)

FY2023 Gross Profit: 855,088

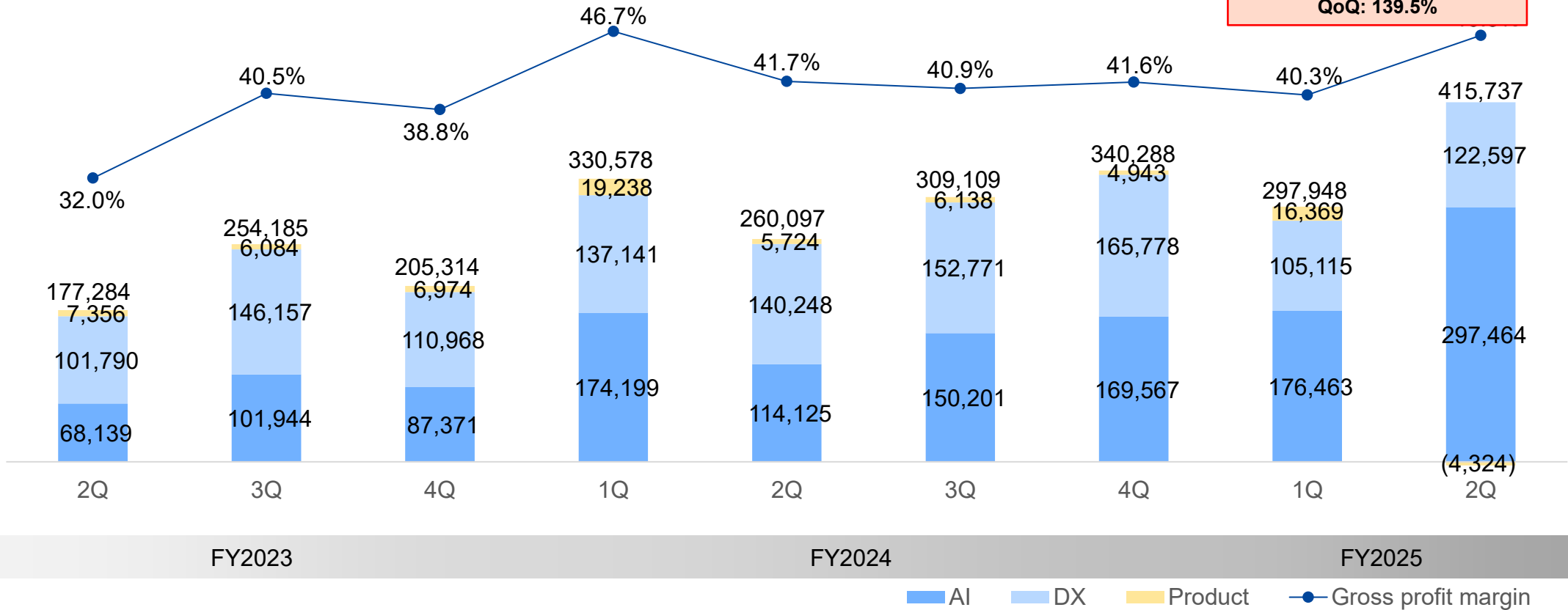
FY2024 Gross Profit: 1,240,073

FY2025 1H Gross Profit: 713,685

YoY: 120.8%

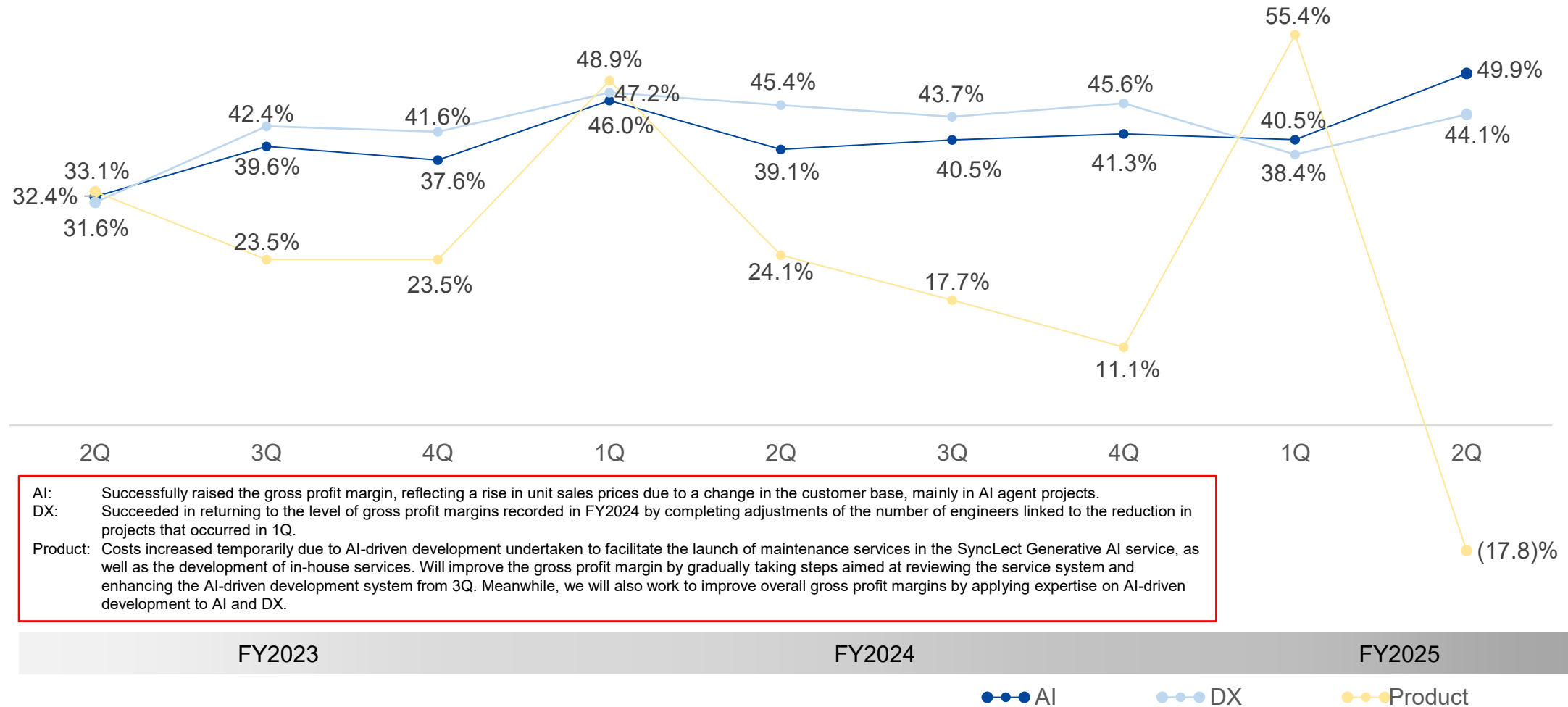
YoY for the Quarter: 159.8%

QoQ: 139.5%

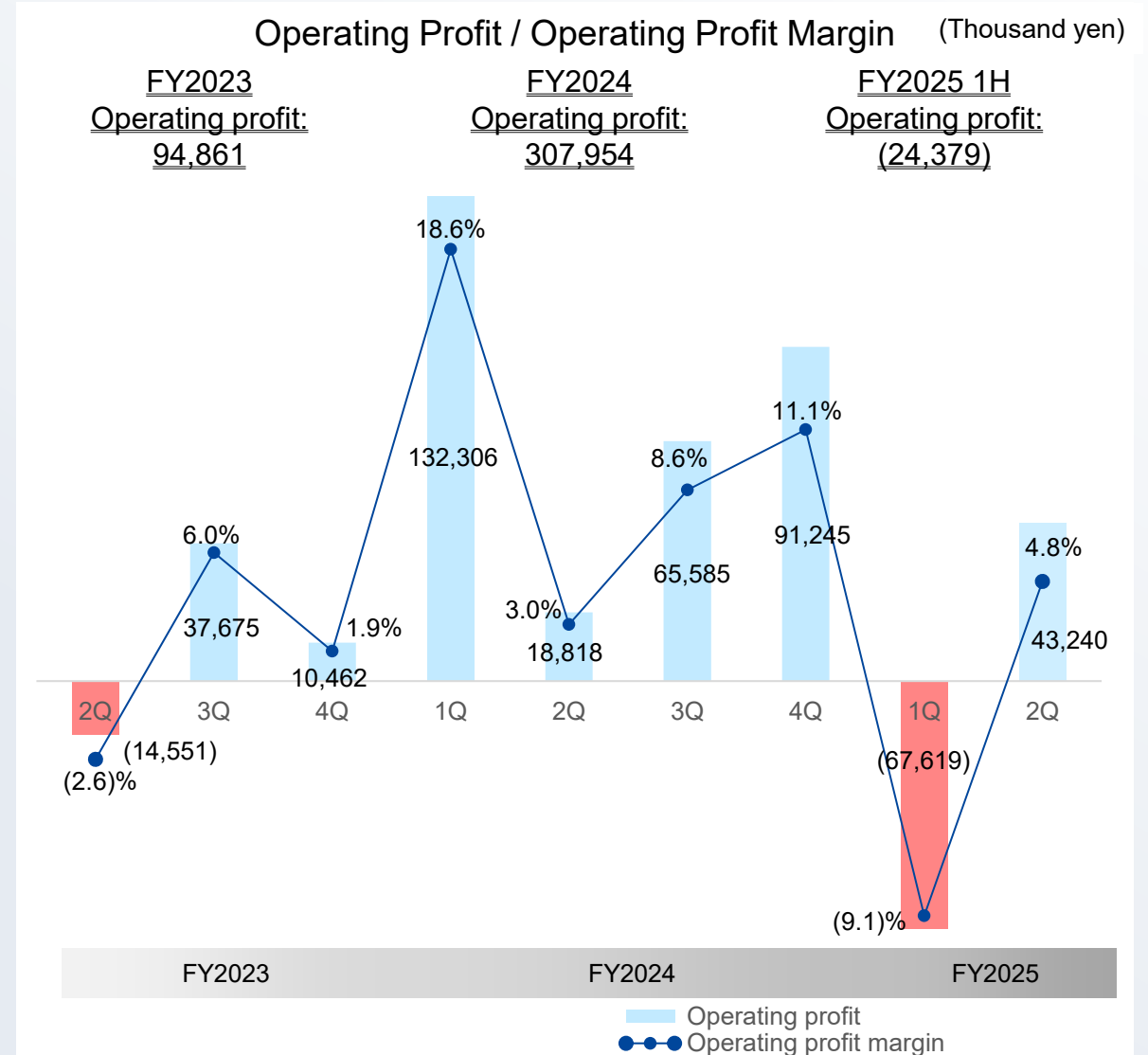
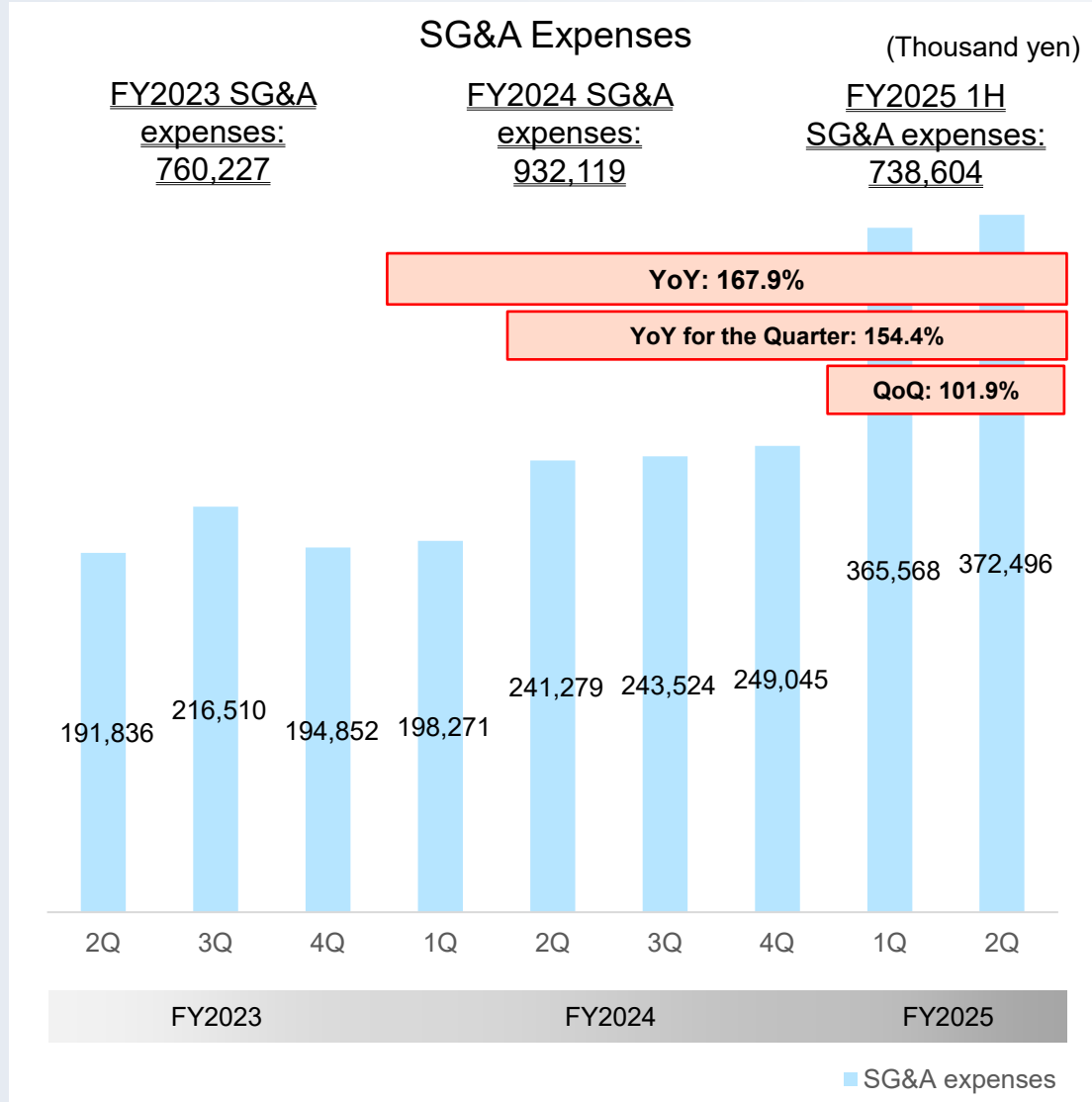




Gross Profit Margin by Service Category

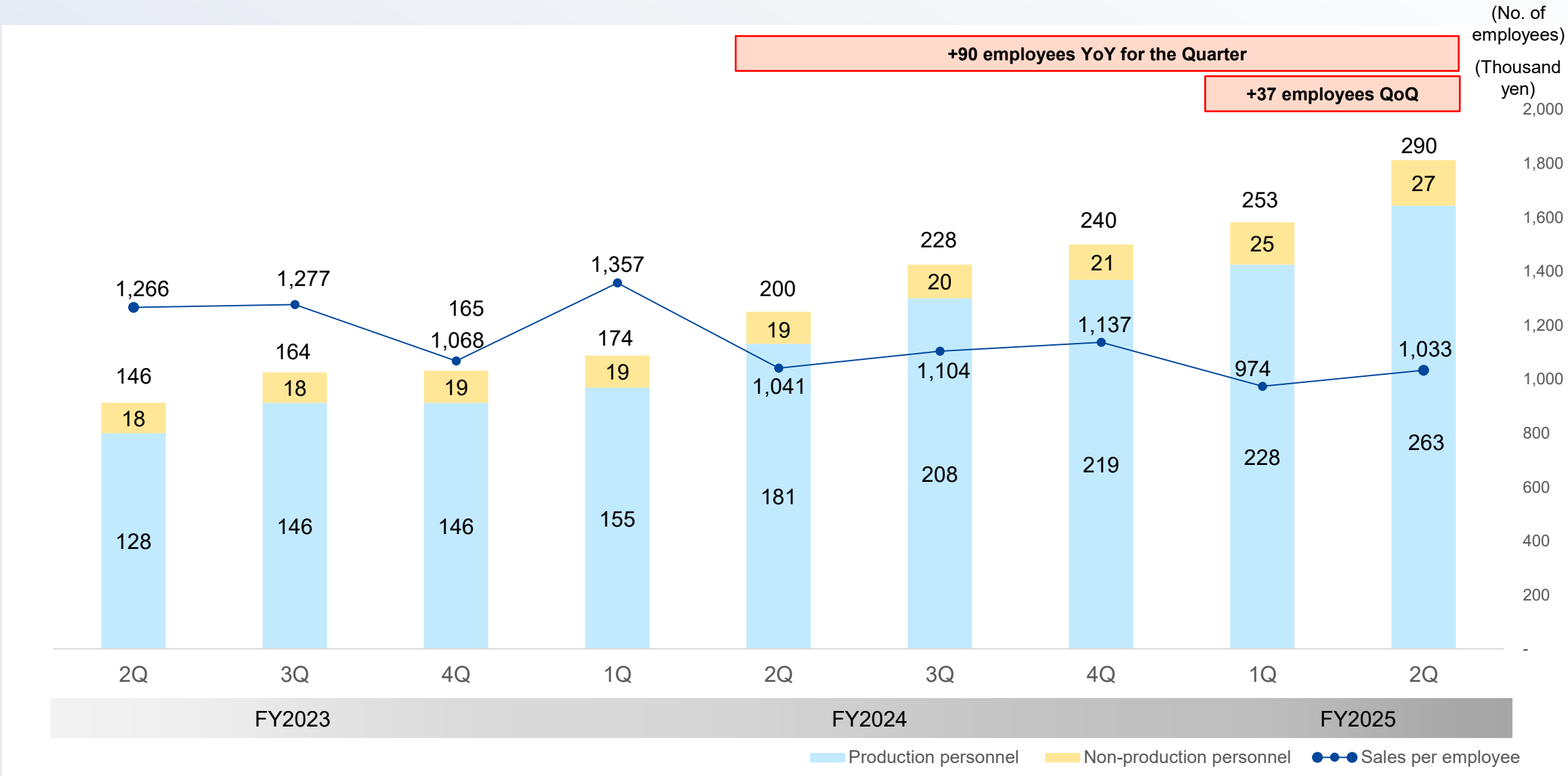


SG&A Expenses, Operating Profit / Operating Profit Margin





Employees, Monthly Sales Per Employee

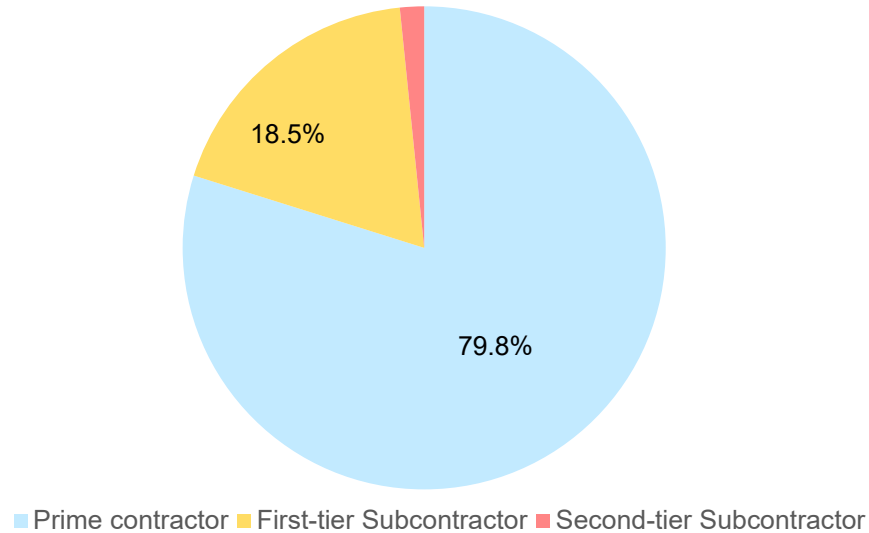


* Contract and part-time employees are not included beginning from FY2024 for the consistency with other disclosed materials.



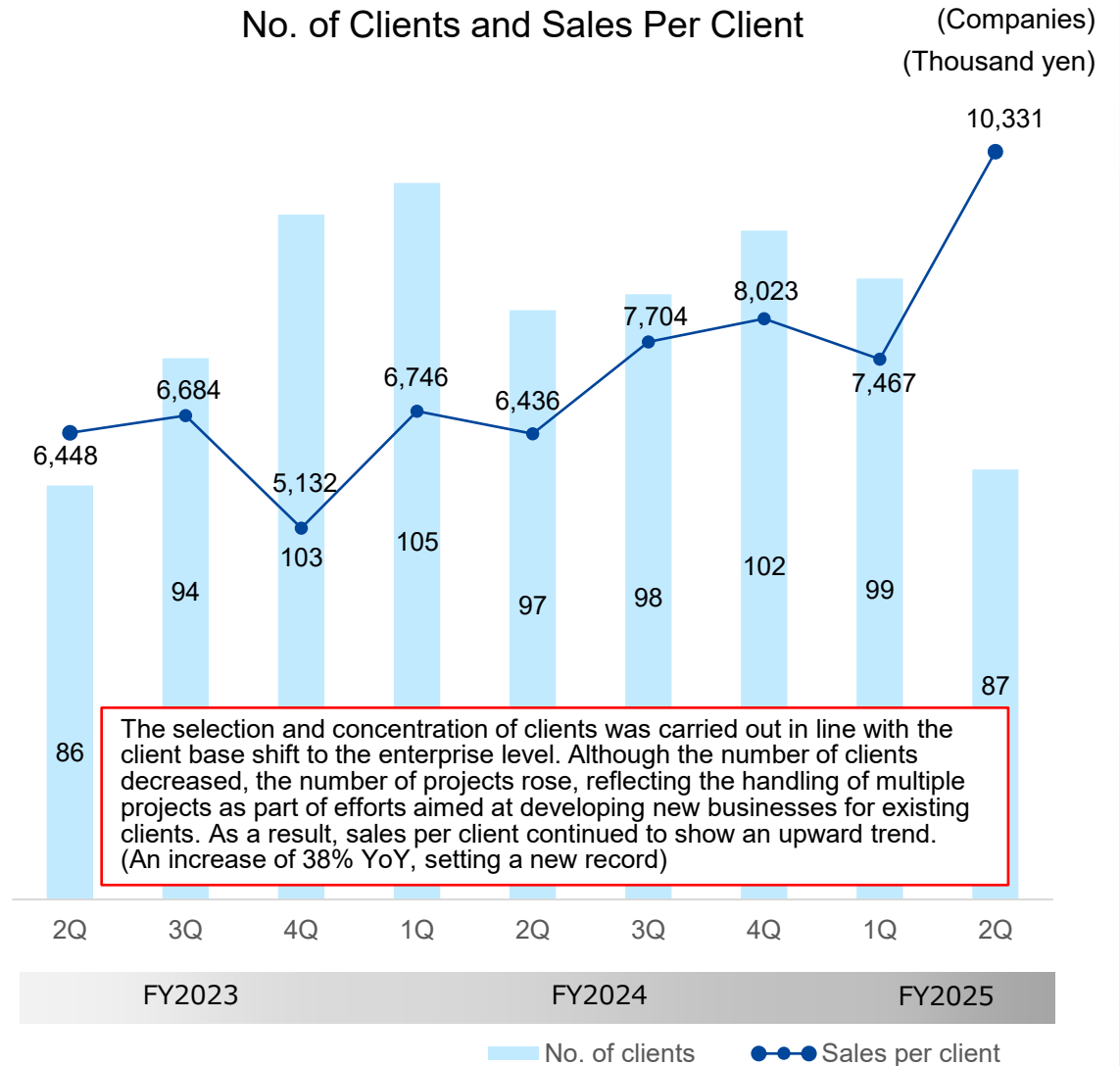
Unit Sales Price, Number of Projects and Contractual Chain Status by Service Category

Pct. of the Contractual Chain (FY2025 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 major 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.

No. of Clients and Sales Per Client

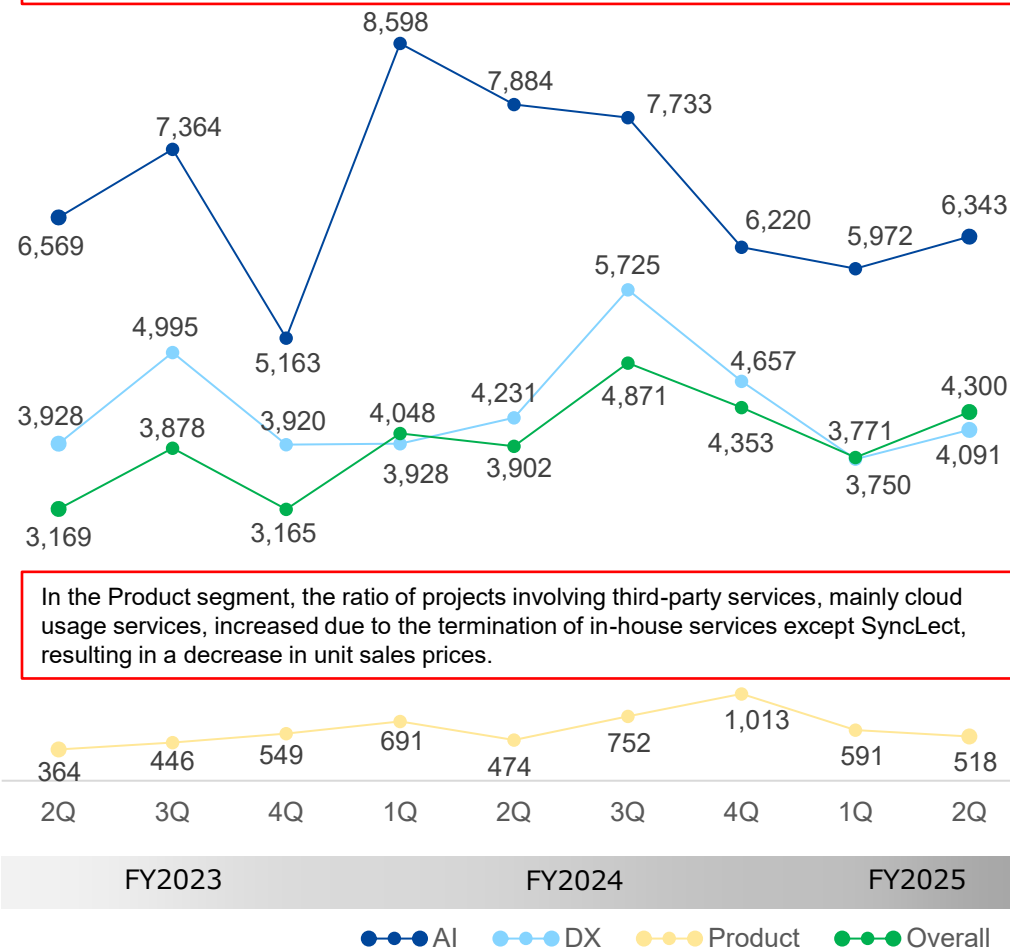




Unit Sales Price, Number of Projects and Contractual Chain Status by Service Category

Unit Sales Price by Service Category (Thousand yen)

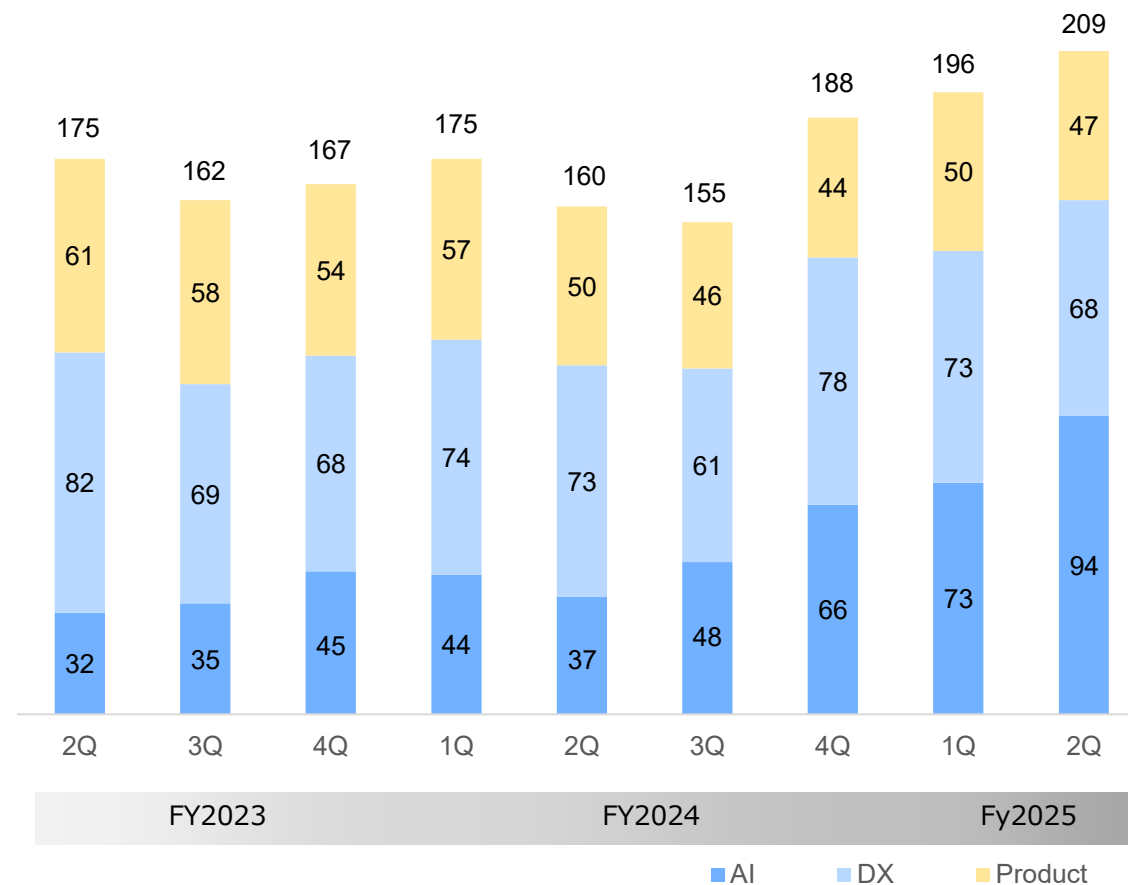
In the AI segment, the sizes of second and subsequent projects increased due to the cultivation of new clients or the development of new businesses with existing clients.
In the DX segment, unit sales prices decreased as in 1Q due to the shifting of sales from the DX segment to the AI segment.



In the Product segment, the ratio of projects involving third-party services, mainly cloud usage services, increased due to the termination of in-house services except SyncLect, resulting in a decrease in unit sales prices.

No. of Projects by Service Category

The number of AI projects, such as workshops, hackathon projects and data platform projects, showed a remarkable increase. The number of DX projects decreased slightly due to the shift to AI projects. The number of Product projects decreased slightly due to the termination of in-house services except for the SyncLect service.



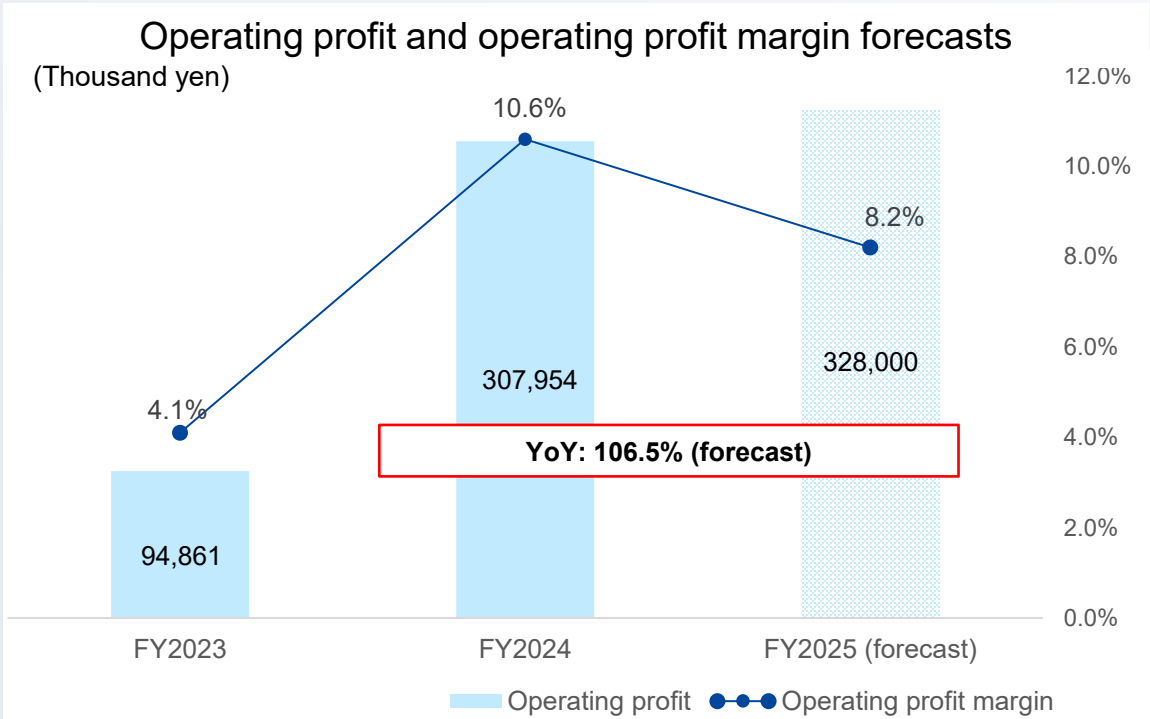
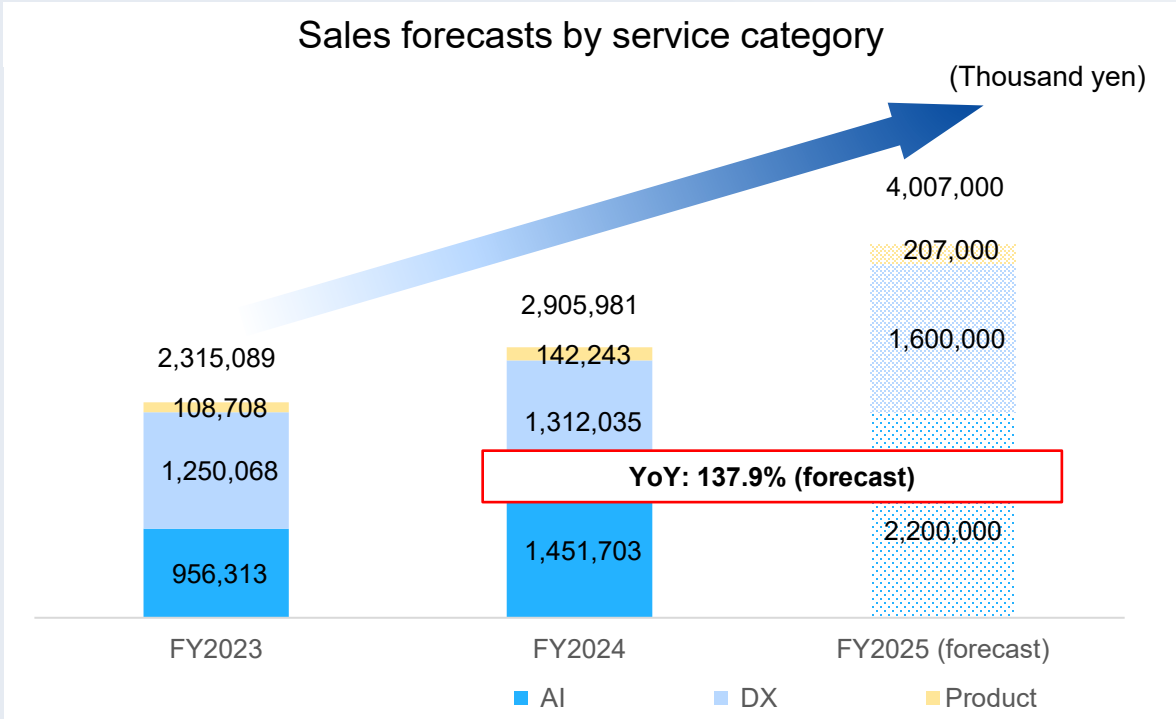
* Because the OPS Services category was discontinued from FY2024, the number of OPS projects in FY2022 and FY2023 has been allocated to the three other service categories.



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.



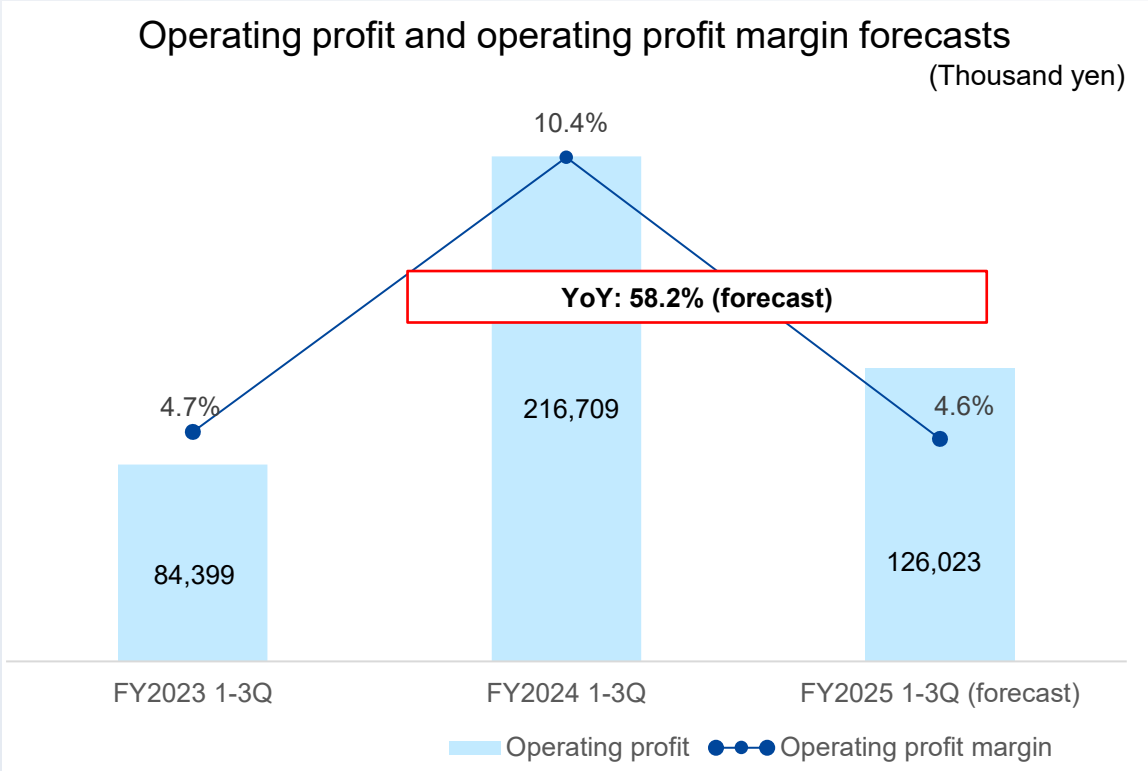
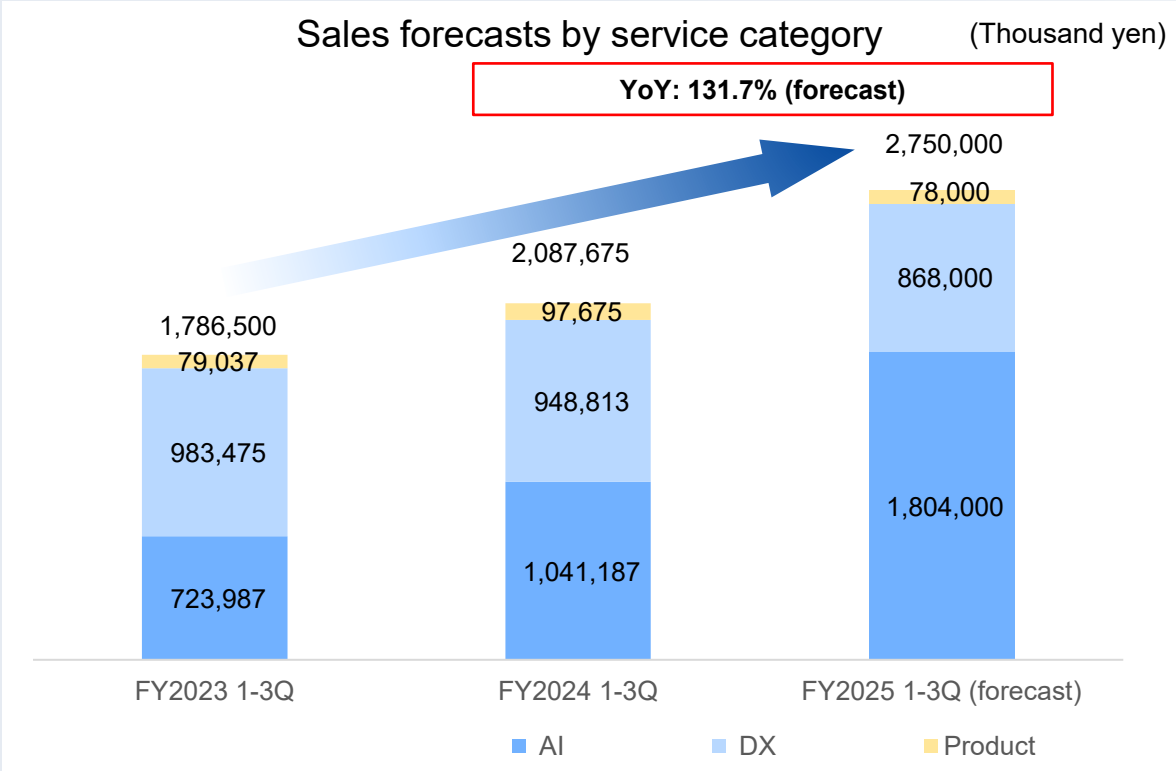
* Forecast figures may change as they are as of the time of disclosure of these materials.



FY2025 3Q Revenue Forecast

Headwaters has made the expansion of net sales a KPI for FY2025, while also sparing no efforts to mitigate the impact of seasonal fluctuations. It therefore projects the following revenue in 3Q.

- Net sales: Projected to exceed 1.1 billion yen, an increase by 23.7% from 2Q, as the impact of seasonal fluctuations has been mitigated.
- Gross profit margin: Expected to achieve the gross profit margin of approximately 45% as in 2Q.
- SG&A expenses: Forecast to be approximately 350 million yen with both recruitment and recruitment expenses expected to decrease from the planned levels.
- Operating profit: In addition to higher sales, we expect to be able to curtail SG&A expenses while simultaneously maintaining a certain gross profit margin. Consequently, operating profit margin is projected to exceed 13% in 3Q (For cumulative forecasts up to 3Q, please refer to the charts below).



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



Solutions Provided in Selected Business Sectors

Manufacture/Automobile

- Automotive multi-agent
- Generative AI robotics
- 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

- Financial agentic work flow
- Multimodal AI investment app
- 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

- AI agent using SLM to assist with in-flight passenger services
- Railway station staff AI agent
- Smart agriculture AI app
- Low-code government DX
- 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

- An AI agent for presentations
- 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



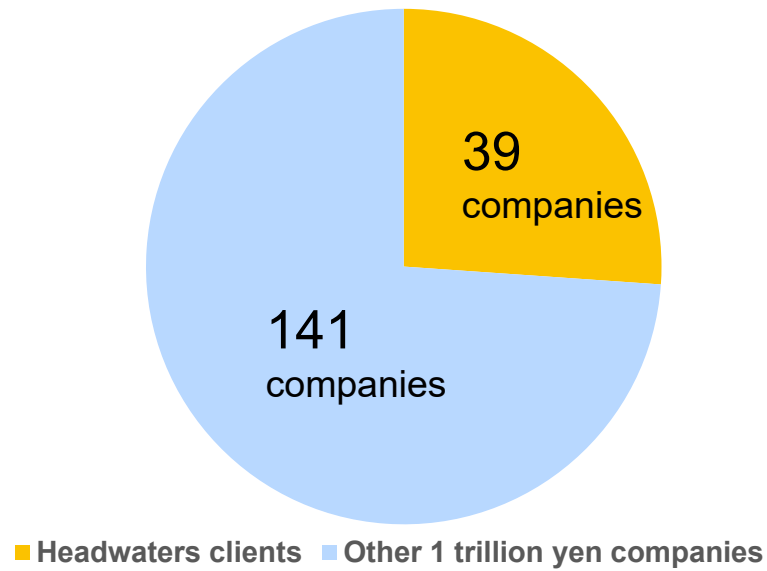
The goal to advance to a phase of more expansion by leveraging the client base consisting of companies with annual sales of more than 1 trillion yen that was established by using the alliance strategy

More points of contact, mainly with the 39 large companies that are currently our clients, by contacting senior executives, holding seminars and using other activities.

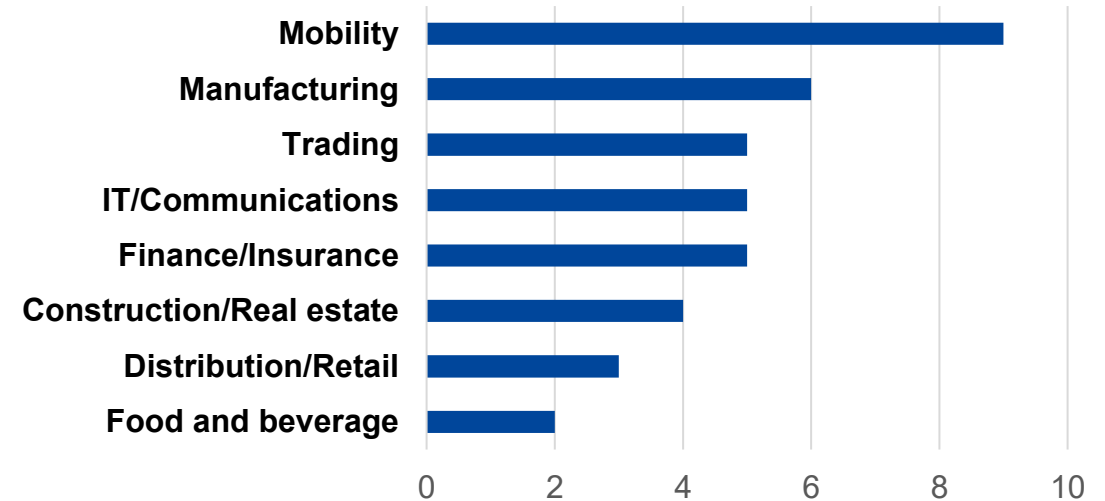
Strategically use proposals using X-Tech Hands-On Work to **receive multiple projects and encompass more departments of client companies.**

Use these measures to increase the lifetime value of current clients and consistently increase revenue.

Relationships with 39 of the 180 companies with annual sales of more than 1 trillion yen in Japan



Composition of the 39 1-trillion-yen client companies that are key targets



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

**Business
process AI**

Company AI

Industry AI

An AI society

AI/ IoT /
Big data

AI/ IoT /
Big data

AI/ IoT /
Big data

**Our capability to achieve social deployment of
advanced technologies in each phase**

Consultation/UX



Modern technology centered on AI



- This document contains outlooks, future plans and management goals related to Headwaters. Descriptions regarding these forward-looking statements 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 for FY2025 2Q and prior periods 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 FY2025 1Q and FY2025 2Q
 - **YoY:** A comparison between the cumulative figures of the previous fiscal year and the current fiscal year
 - Comparison between figures of FY2024 1H and FY2025 1H
 - **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 FY2024 2Q and FY2025 2Q

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.