Headwaters

Financial Supplementary Materials

for the Second Quarter of FY2025

Headwaters Co., Ltd.

August 14, 2025 Securities code: 4011

FY2025 1H Consolidated Financial Results Overview

(Thousand yen)

	FY2024 1H Results		FY2025 1H Results			
		Pct. to net sales (%)		Pct. to net sales (%)	YoY change (%)	Full-year forecast achievement rate (%)
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			

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FY2025 1H Financial Summary

FY2025 Key Performance Indicators　　Sales and Recruiting

Net sales

- 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 customer-centric 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.

Operating Profit / Ordinary Profit

- Gross profit and margin: **Achieved a record high gross profit** by increasing unit sales prices and steadily advancing projects.
- SG&A expenses: 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 had a negative impact.
- Operating profit: 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.**
- 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 37 employees including nine new graduates in 2Q (compared to a net increase of 24 in the same period of FY2024).
- Net increase of 50 employees compared to the annual plan of a net increase of 80 employees: Progress rate: 62.5%
- 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

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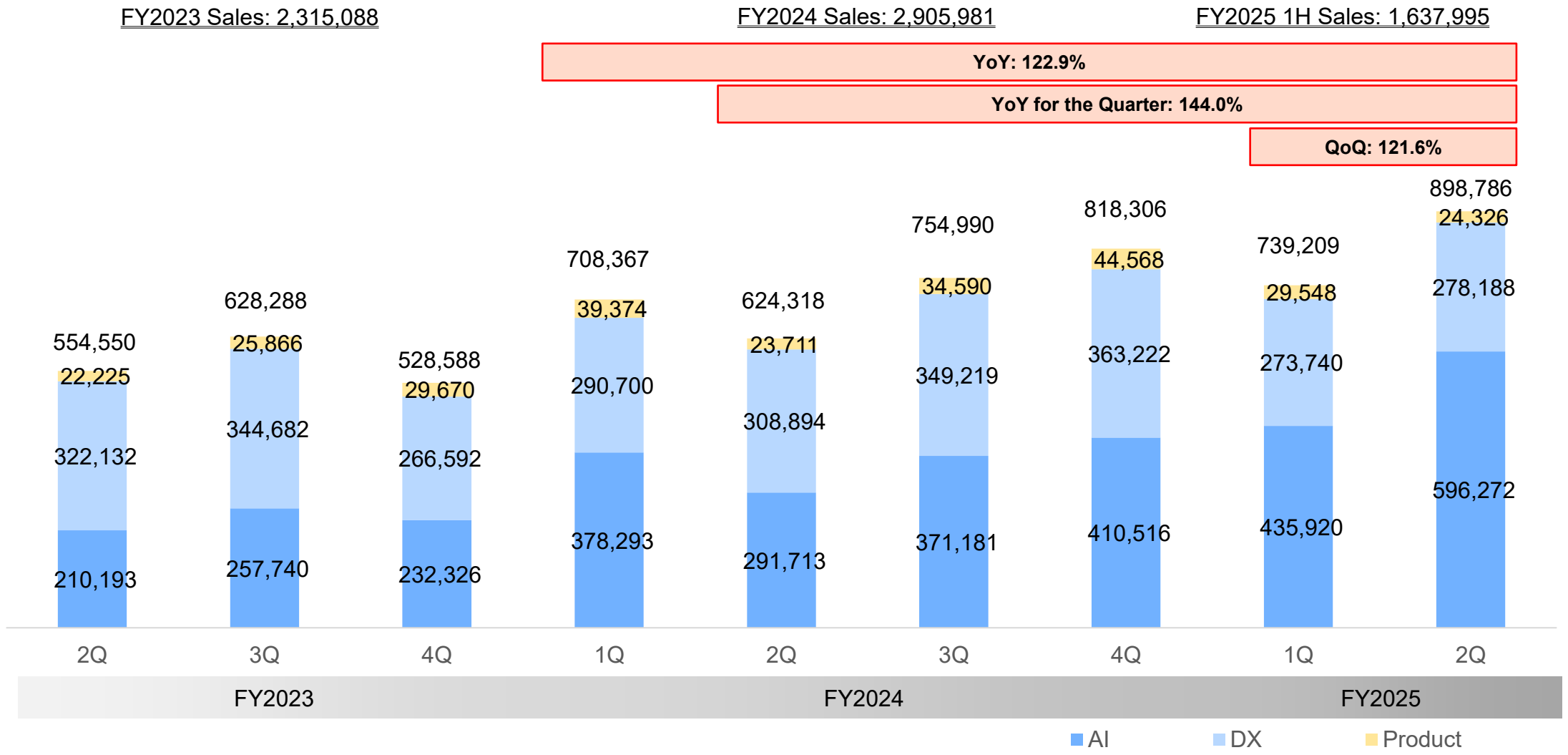
Net Sales by Service Category

(Thousand yen)



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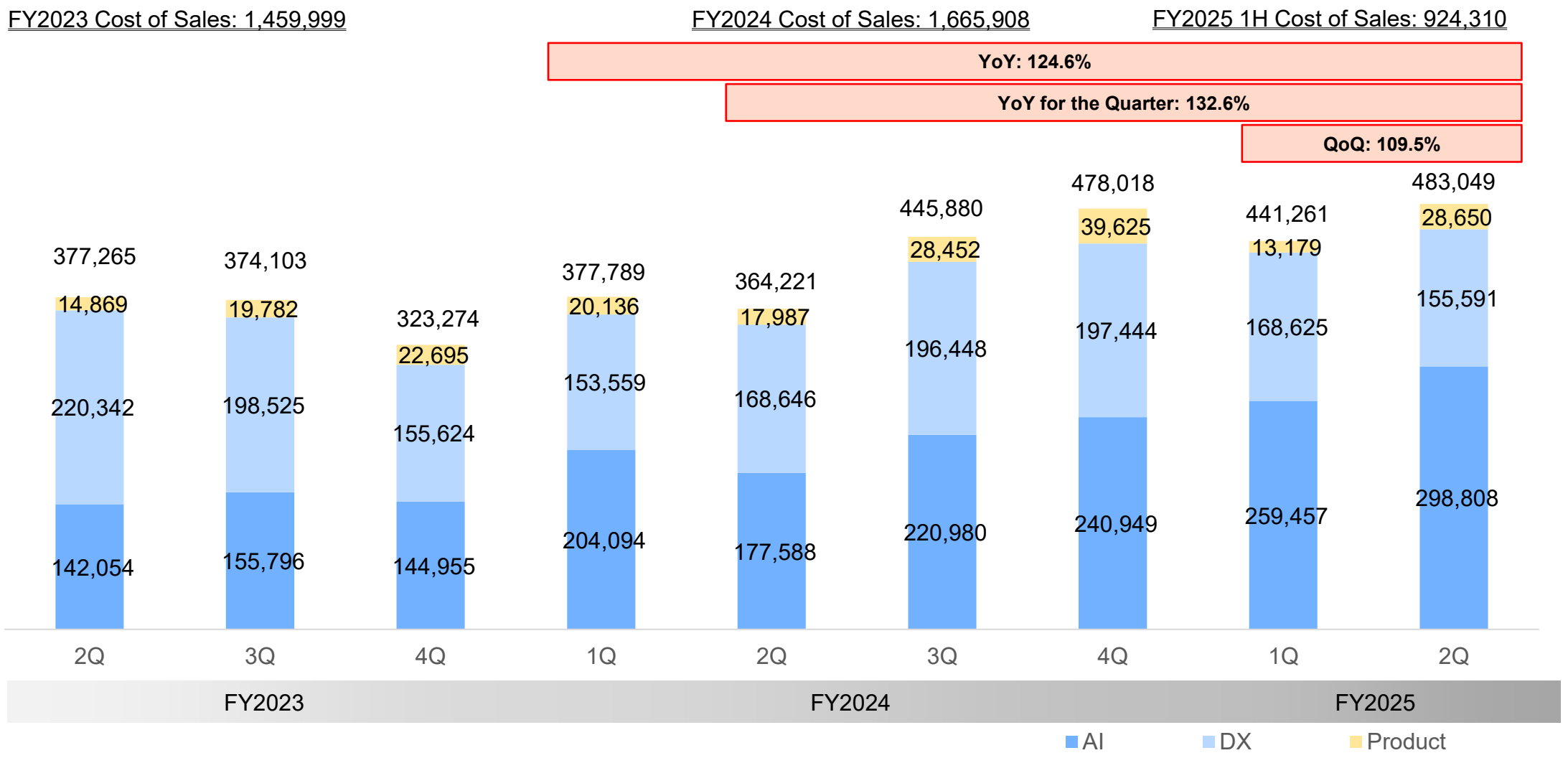
Cost of Sales by Service Category

(Thousand yen)



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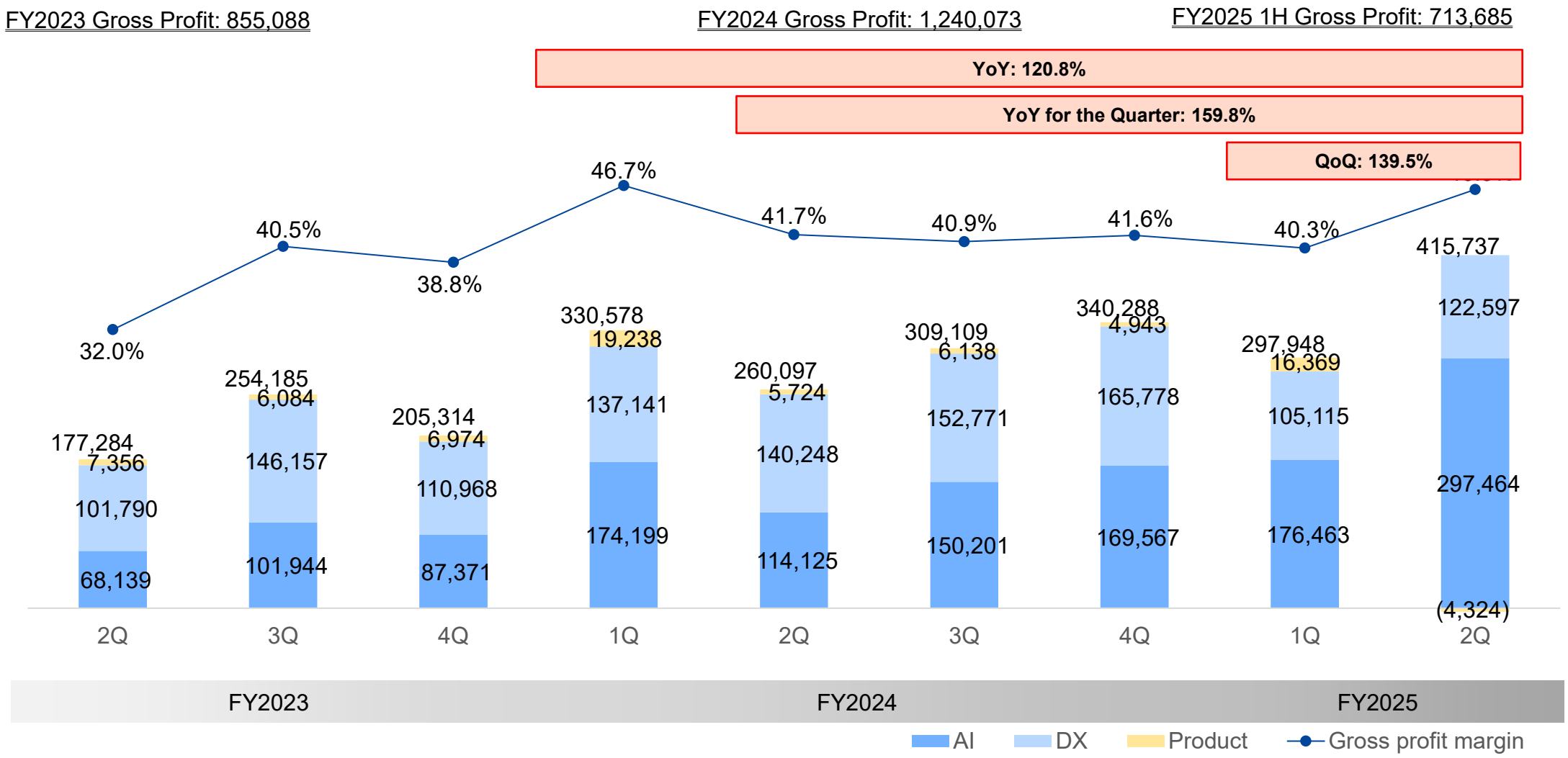
Gross Profit by Service Category

(Thousand yen)



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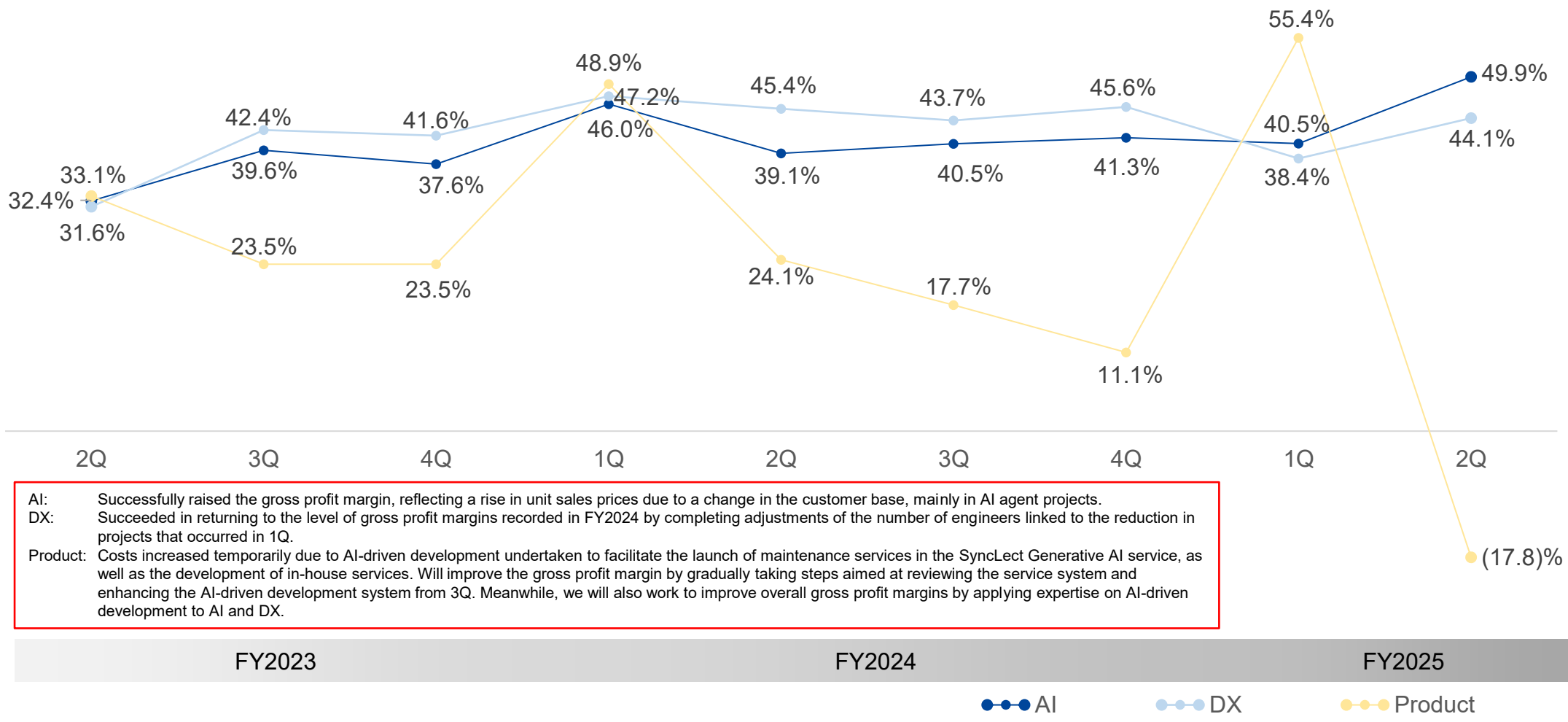
Gross Profit Margin by Service Category



AI: Successfully raised the gross profit margin, reflecting a rise in unit sales prices due to a change in the customer base, mainly in AI agent projects.

DX: Succeeded in returning to the level of gross profit margins recorded in FY2024 by completing adjustments of the number of engineers linked to the reduction in projects that occurred in 1Q.

Product: Costs increased temporarily due to AI-driven development undertaken to facilitate the launch of maintenance services in the SyncLect Generative AI service, as well as the development of in-house services. Will improve the gross profit margin by gradually taking steps aimed at reviewing the service system and enhancing the AI-driven development system from 3Q. Meanwhile, we will also work to improve overall gross profit margins by applying expertise on AI-driven development to AI and DX.

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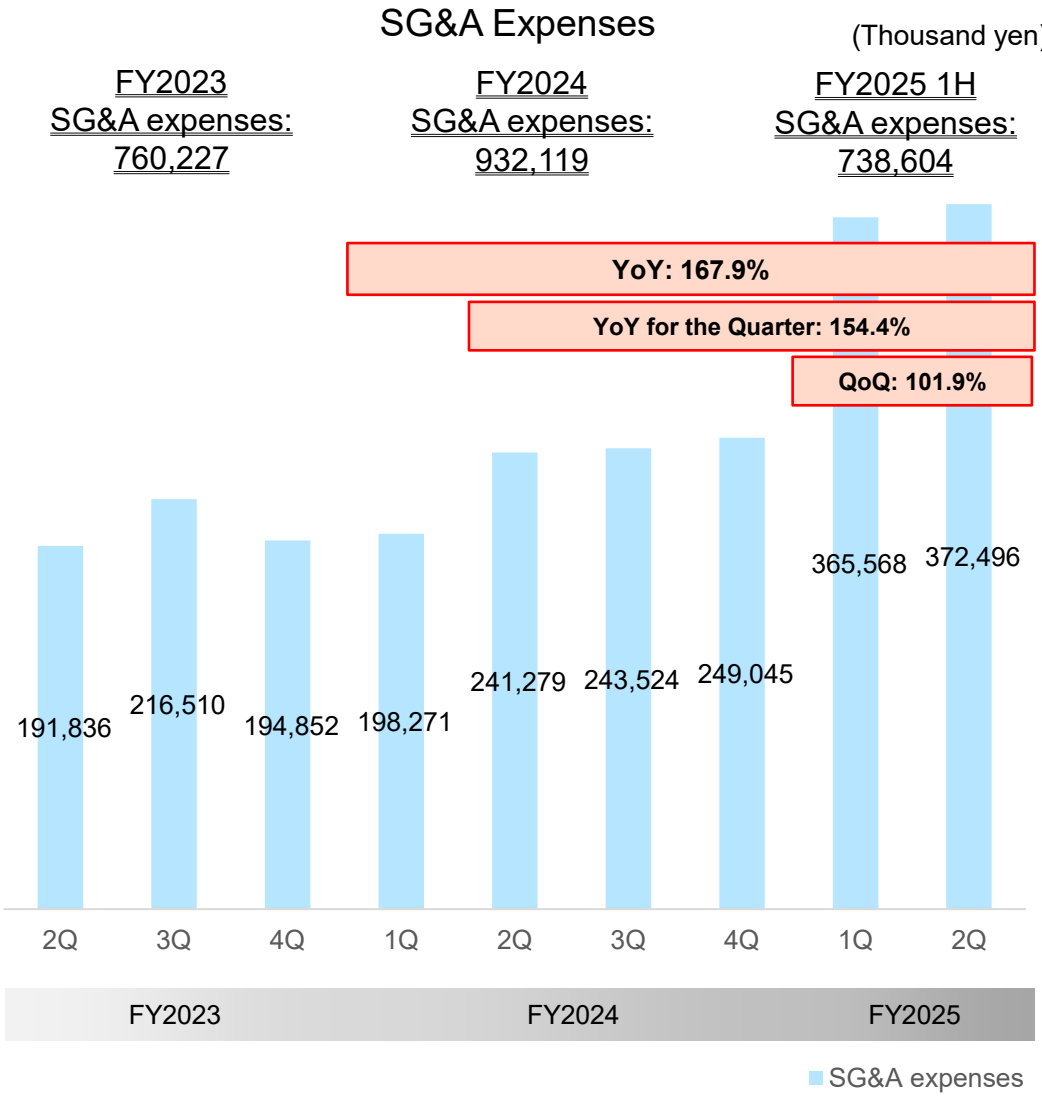
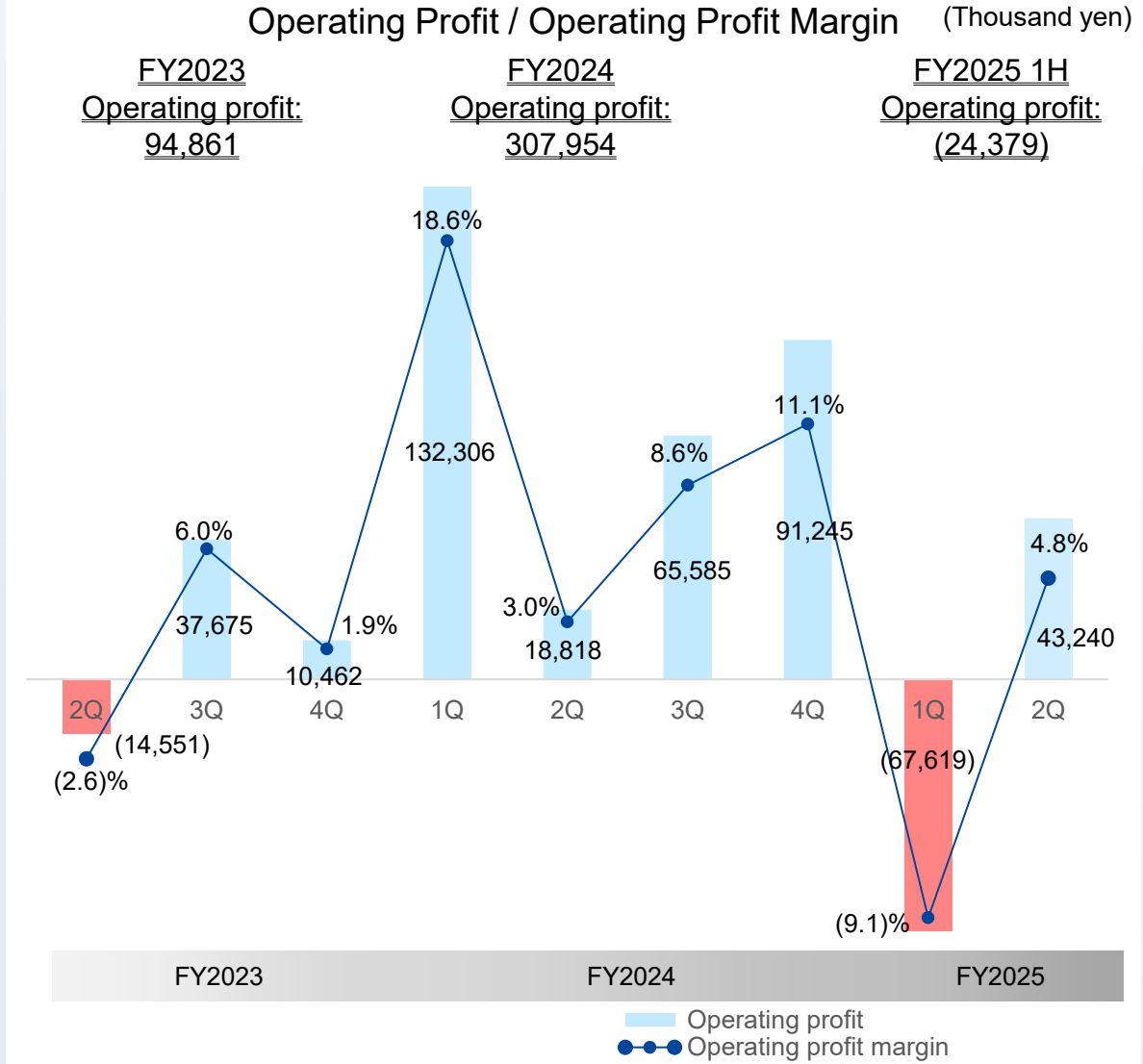
SG&A Expenses, Operating Profit / Operating Profit Margin





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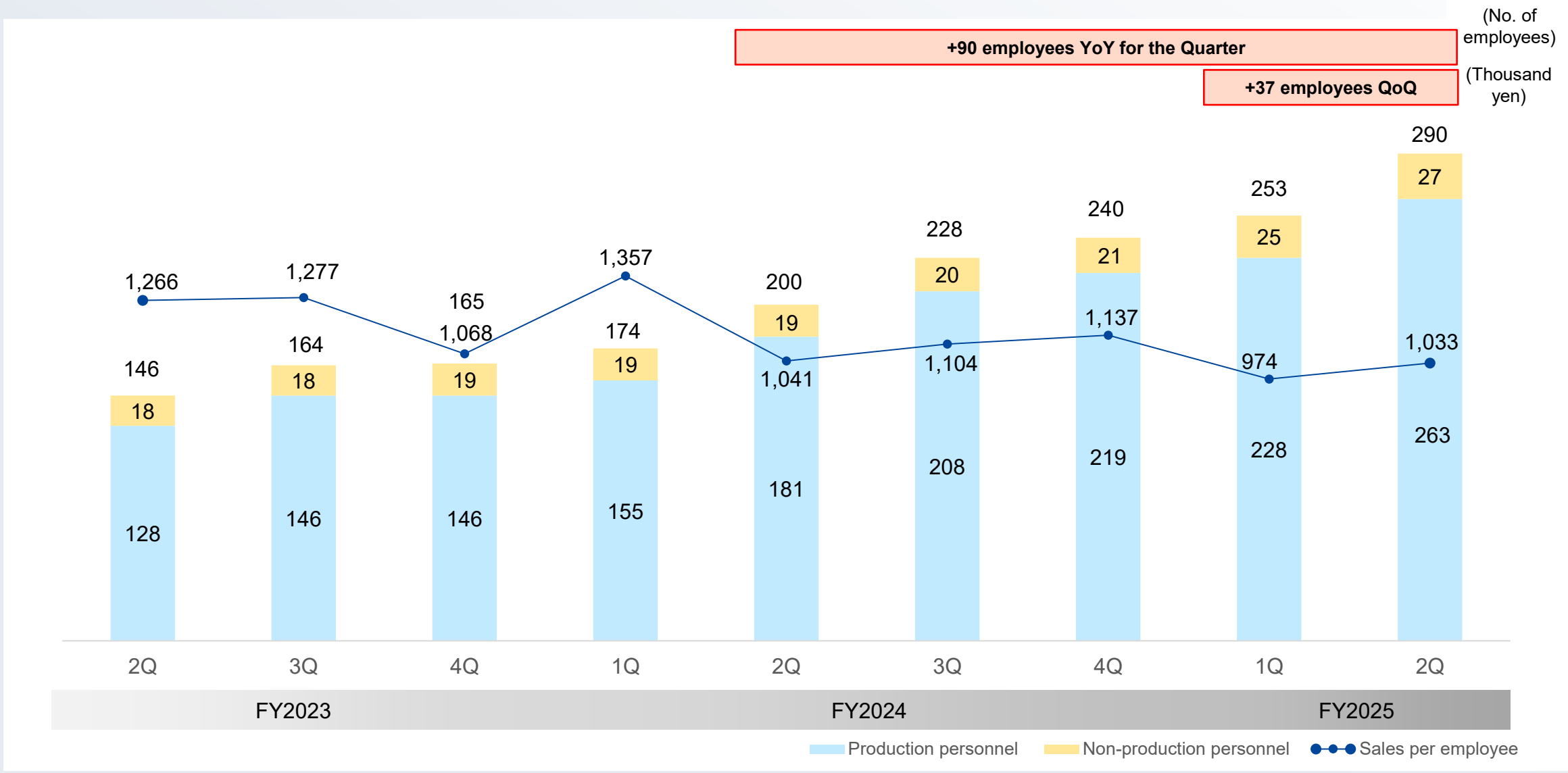
Employees, Monthly Sales Per Employee



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

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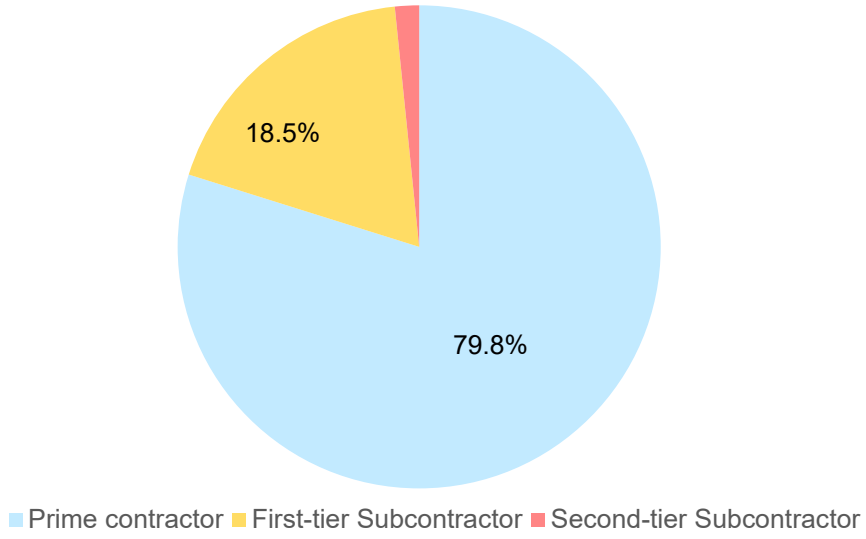
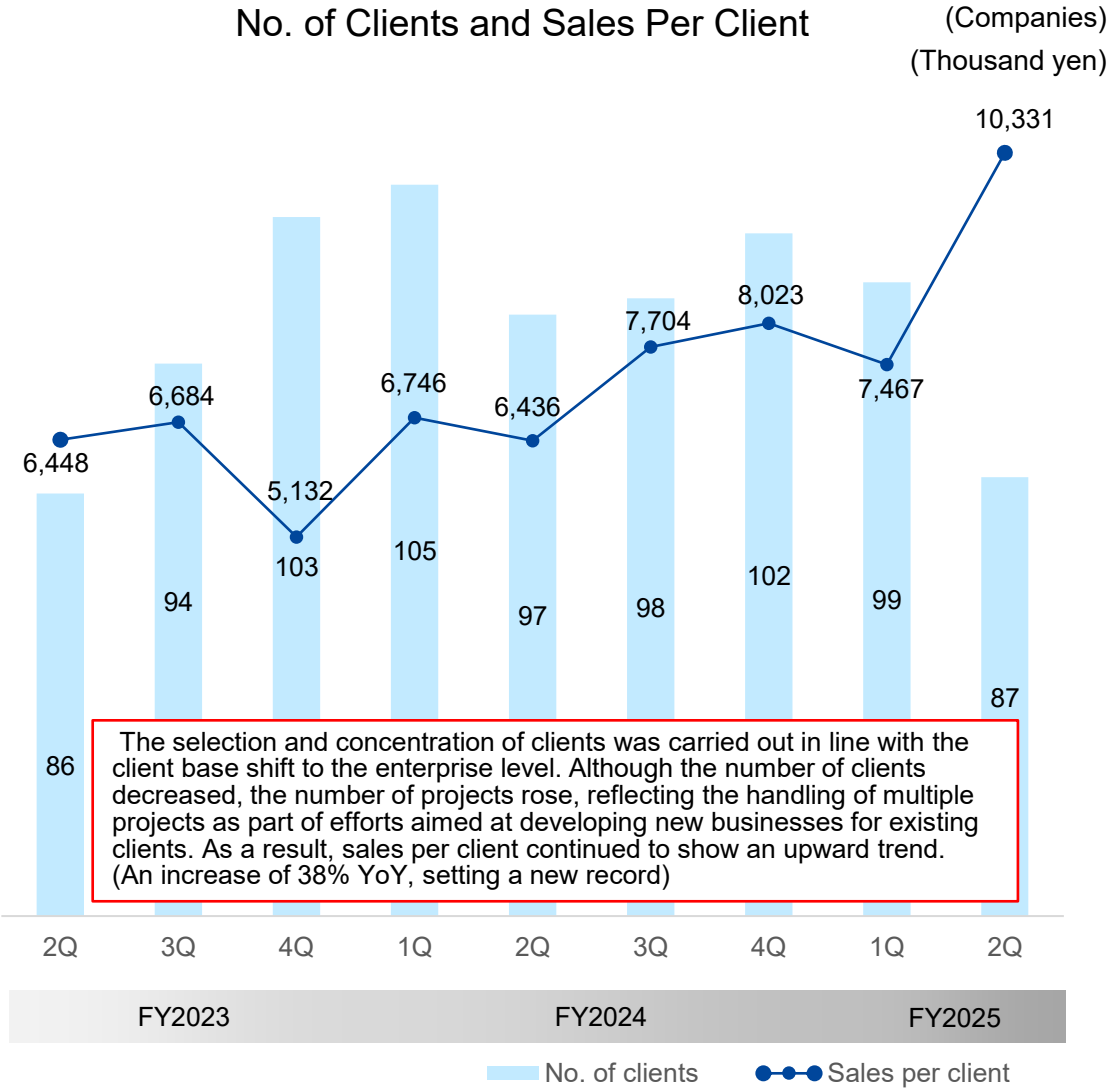
Unit Sales Price, Number of Projects and Contractual Chain Status by Service Category

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



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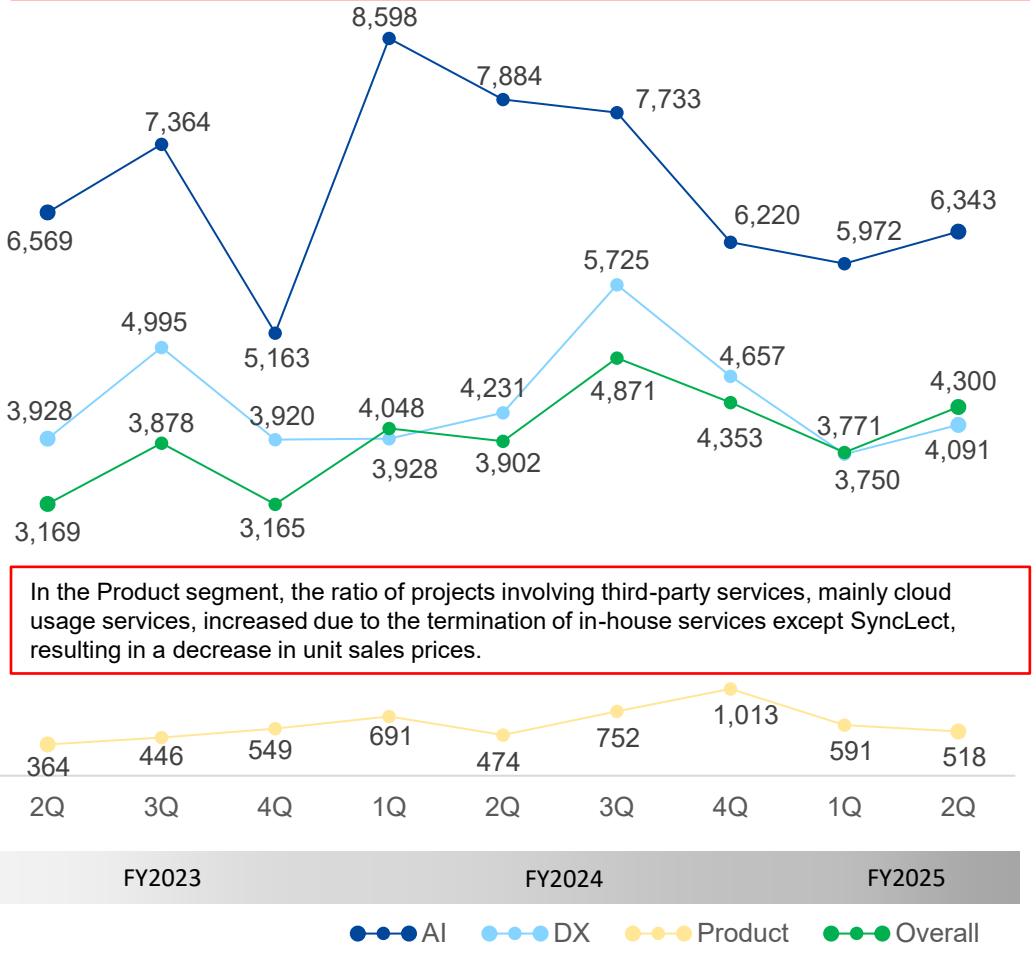
Unit Sales Price, Number of Projects and Contractual Chain Status by Service Category

Unit Sales Price by Service Category (Thousand yen)

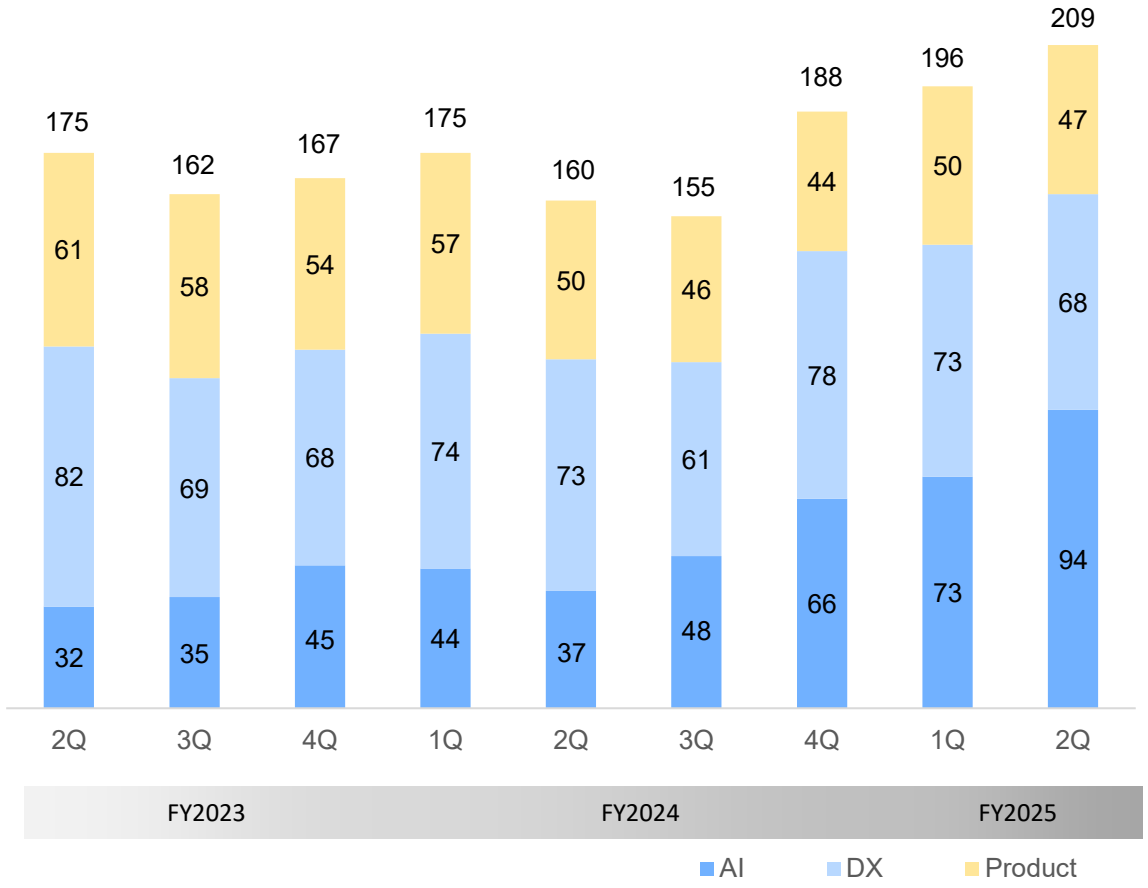
In the AI segment, the sizes of second and subsequent projects increased due to the cultivation of new clients or the development of new businesses with existing clients.
In the DX segment, unit sales prices decreased as in 1Q due to the shifting of sales from the DX segment to the AI segment.



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.

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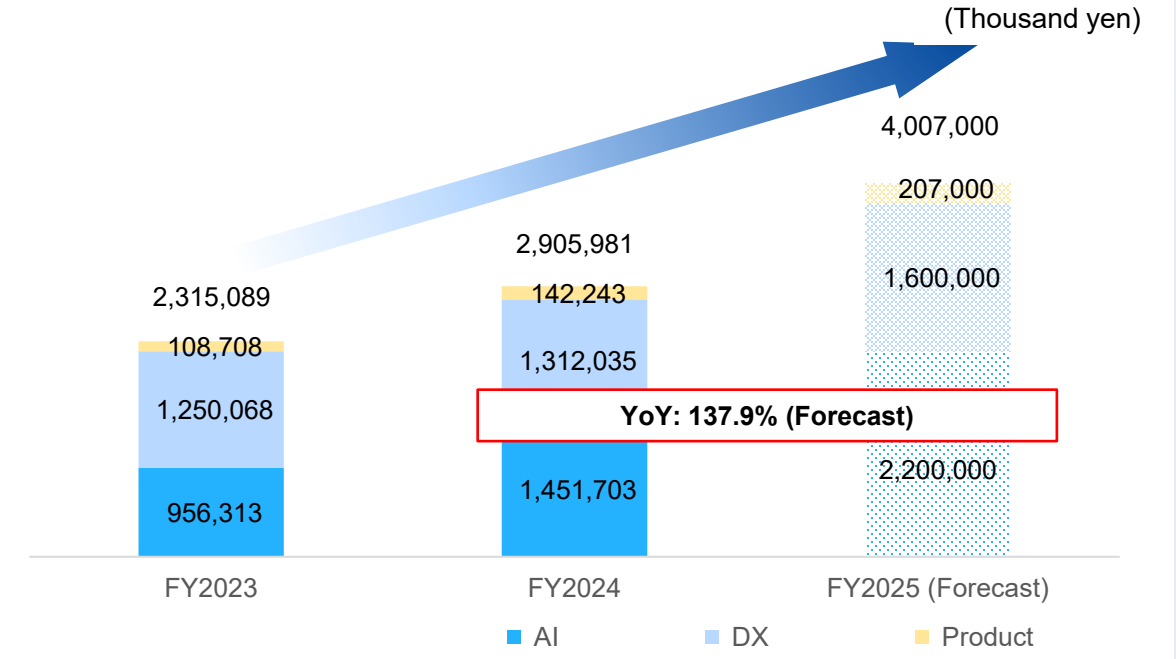
FY2025 Forecast

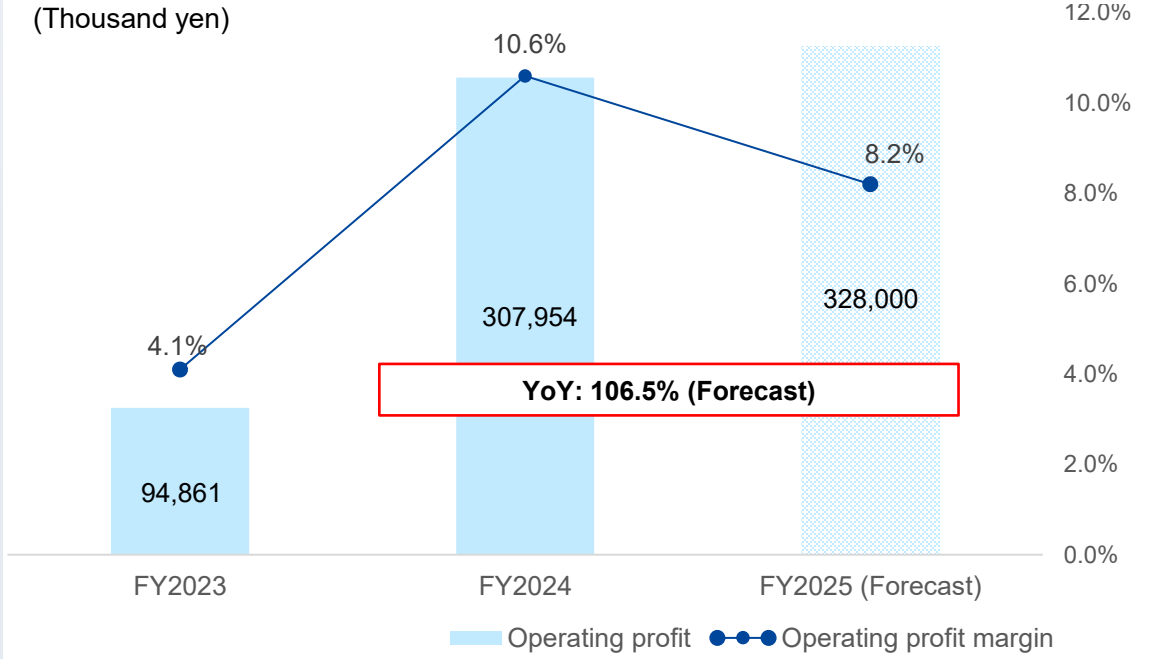
Headwaters believes that FY2025 is a breakthrough year for AI agents and a period in which the generative AI market will continue to expand. In response to this market environment, Headwaters has positioned this year as a year of investment, in which it aims to significantly increase the volume of sales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

Sales forecasts by service category



Operating profit and operating profit margin forecasts



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

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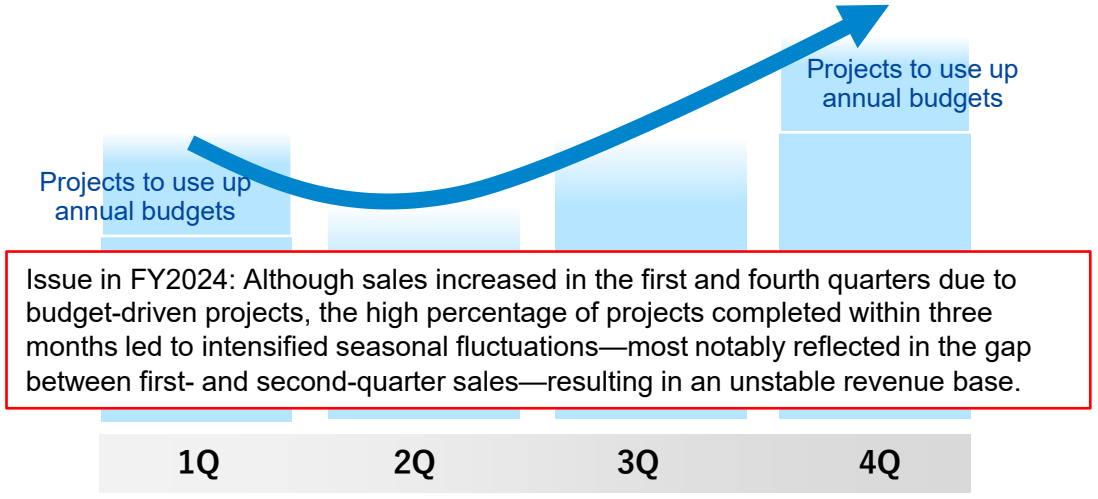
Seasonal Fluctuations in Net Sales

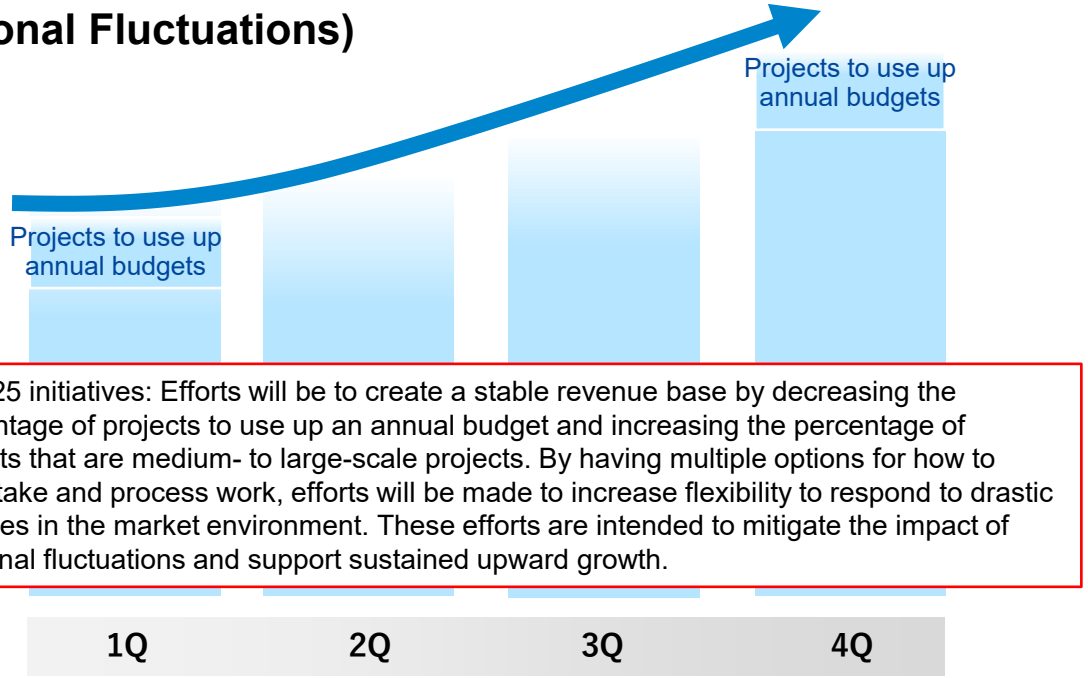
Headwaters' sales are forecast that usually incorporates seasonal fluctuations. Considering these fluctuations to be a management issue, Headwaters has prepared its FY2025 forecasts with an eye toward the creation of a stable revenue base.

	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)



Issue in FY2024: Although sales increased in the first and fourth quarters due to budget-driven projects, the high percentage of projects completed within three months led to intensified seasonal fluctuations—most notably reflected in the gap between first- and second-quarter sales—resulting in an unstable revenue base.



FY2025 initiatives: Efforts will be to create a stable revenue base by decreasing the percentage of projects to use up an annual budget and increasing the percentage of projects that are medium- to large-scale projects. By having multiple options for how to undertake and process work, efforts will be made to increase flexibility to respond to drastic changes in the market environment. These efforts are intended to mitigate the impact of seasonal fluctuations and support sustained upward growth.

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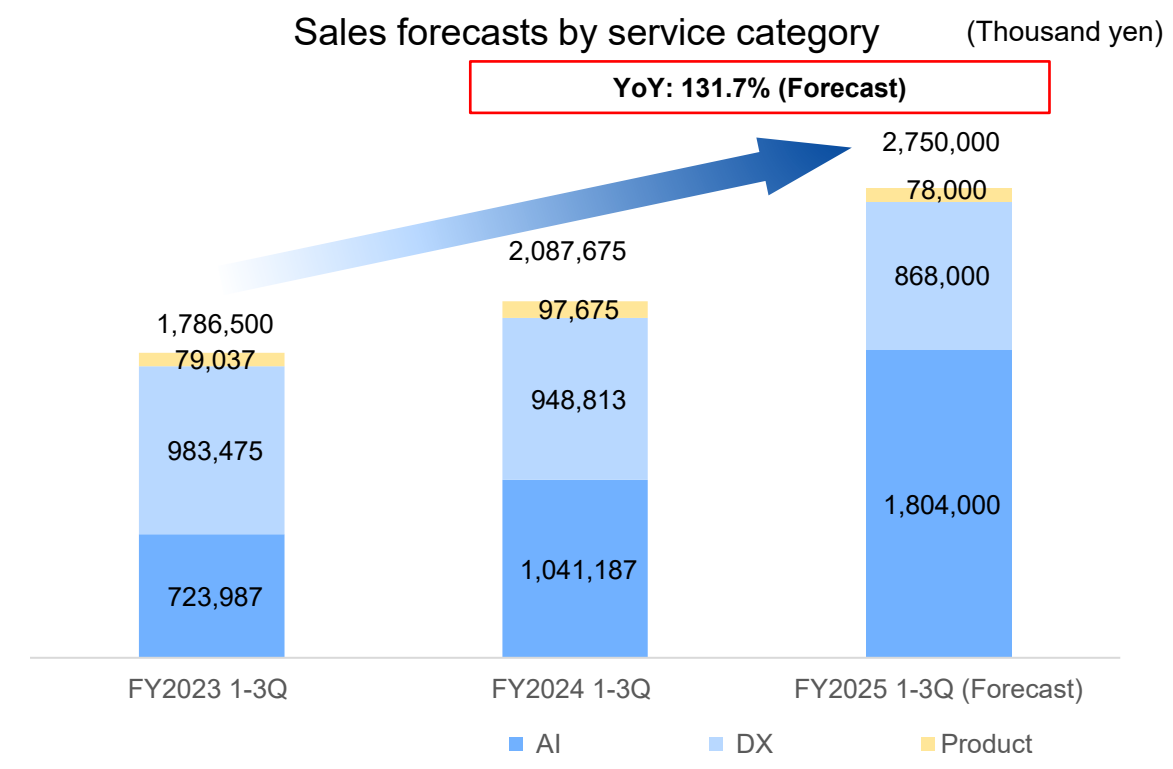
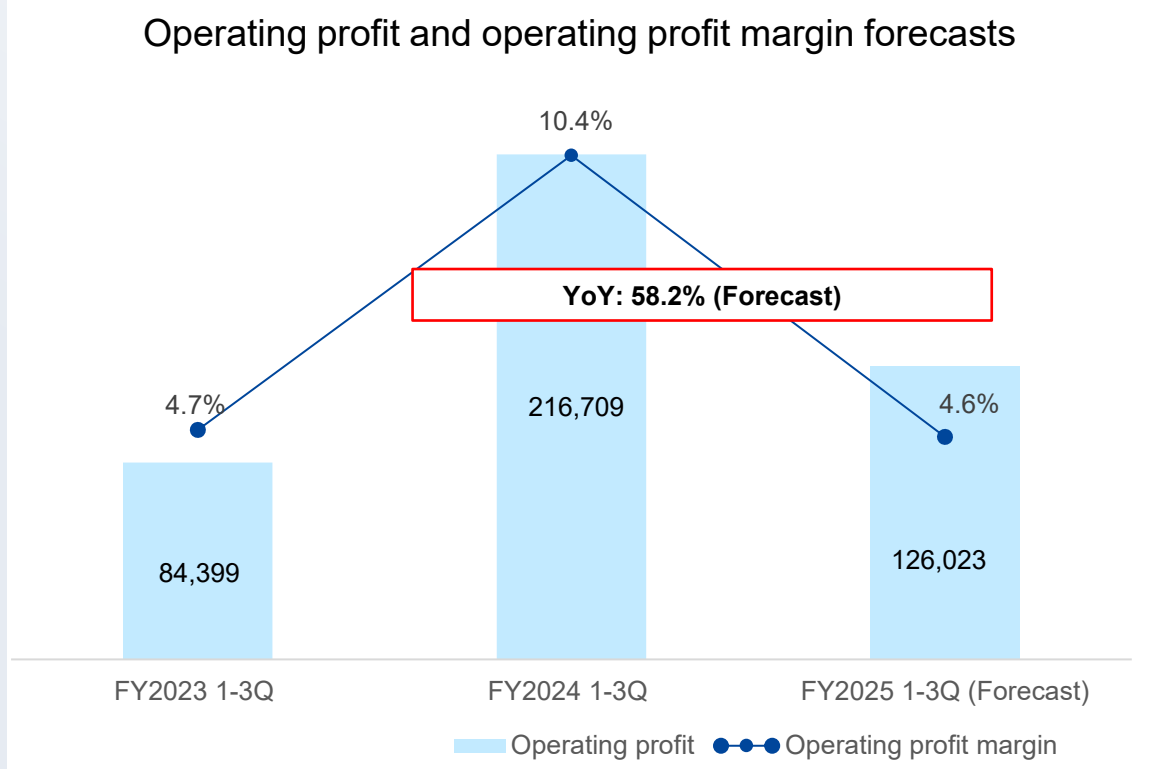
FY2025 3Q Revenue Forecast

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).





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IR News Summary (April 2025 - June 2025)

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

■ Timely disclosure
- ✓ Notice Regarding Issuance of New Shares as Restricted Shares to Directors of the Company
- ✓ Notice Regarding Completion of Payment for Issuance of New Shares as Restricted Stock Compensation to Directors of the Company
- ✓ Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2025 (Under Japanese GAAP)
- ✓ Financial Supplementary Materials for the First Quarter of FY2025

■ AI technology innovations / Services
- ✓ Start of MCP-based collaboration in SyncLect AI Agent, a microservice type AI agent platform, to enable collaboration with external services
- ✓ 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 —
- ✓ 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
- ✓ Launch of the AI-Driven Development/Vibe Coding CoE Service to support AI agent-based autonomous software development
  — Realized the broad adoption of autonomous AI coding agents such as GitHub Copilot Coding Agent and Devin, as well as an improvement in efficiency of at least 30% —

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IR News Summary (April 2025 - June 2025)

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

■ Achievements / Examples of implementation
- ✓ Fujitsu and Headwaters trial on-device generative AI solution to streamline JAL cabin crew workflows
- ✓ Release of the beta version of the Daiwa Lens App for smartphones in collaboration with the headquarters of Daiwa Securities Group
- ✓ 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 —
- ✓ Development of an app to support the introduction of management in the Shielding Mulch Cultivation (NARO S. Mulch) high-quality citrus fruit production technology
- ✓ Co-development by Headwaters and Fujitsu of the Fujitsu AI Auto Presentation, a function for automating presentations using declarative agents

■ Business alliances / Strengthening of partnerships / Notices
- ✓ 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
- ✓ Collaboration with Delivery Consulting
  — Launched support services to maximize the effectiveness of introduced AI agents based on data literacy engineering —
- ✓ Strengthening of the development of industry-specific AI agents, SLM and Agentic RAG through data-centric AI approaches in collaboration with FastLabel

■ Health management and welfare benefits
- ✓ Introduction of the Resort Worx welfare service to diversify workstyles and improve employee satisfaction
- ✓ Notice Regarding Certification as 2025 Health & Productivity Management Outstanding Organization (Large Enterprise Category)

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Notes on Forward-looking Statements

- 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 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.

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