

# Financial Supplementary Materials

for the FY2025

Headwaters Co., Ltd.

February 13, 2026    Securities code: 4011



# FY2025 Consolidated Financial Results Overview

(Thousand yen)

(Thousand yen)

	FY2024 Results		FY2025 Results			
		Pct. to net sales (%)		Pct. to net sales (%)	YoY change (%)	Full-year forecast achievement rate (%)
<b>Net sales</b>	<b>2,905,981</b>	<b>100.0</b>	<b>3,900,040</b>	<b>100.0</b>	<b>134.2</b>	<b>97.3</b>
<b>AI</b>	<b>1,451,703</b>	<b>50.0</b>	<b>2,626,396</b>	<b>67.3</b>	<b>180.9</b>	<b>119.4</b>
<b>DX</b>	<b>1,312,035</b>	<b>45.1</b>	<b>1,167,263</b>	<b>29.9</b>	<b>89.0</b>	<b>73.0</b>
<b>Product</b>	<b>142,243</b>	<b>4.9</b>	<b>106,380</b>	<b>2.7</b>	<b>74.8</b>	<b>51.4</b>
<b>Operating profit</b>	<b>307,954</b>	<b>10.6</b>	<b>229,250</b>	<b>5.9</b>	<b>74.4</b>	<b>69.9</b>
<b>Ordinary profit</b>	<b>362,432</b>	<b>12.5</b>	<b>128,516</b>	<b>3.3</b>	<b>35.5</b>	<b>38.7</b>
<b>Profit attributable to owners of parent</b>	<b>272,787</b>	<b>9.4</b>	<b>57,656</b>	<b>1.5</b>	<b>21.1</b>	<b>24.3</b>
<b>Basic earnings per share</b>	<b>72.01 yen</b>		<b>15.13 yen</b>			



In FY2025, sales and business strategies, which we have been implementing with a view toward boosting the AI business, produced positive effects, leading to significant growth in this business.

Meanwhile, taking the need to reinforce the financial base and create business portfolios as a management issue with a view to listing on the prime market in the future, we made **active investments** with a focus on M&A and investing in human resources. As a result, although operating profit fell short of the plan, the AI category, which is our target area, achieved another set of record highs in sales and gross profit in 2025, steadily strengthening its competitiveness thanks to the **loyal client strategy** that we have been implementing in recent years.

## Net Sales

- We **achieved new record high net sales (up 34.2% YoY)** for the third consecutive quarter by fully tapping into demand for AI
  - AI: Net sales **hit a new record high for the sixth consecutive fiscal year (up 80.9% YoY)**  
Demand for AI agent projects was strong and unit sales per project in each service reached a record high thanks to measures to make customers loyal clients.
  - DX: Given the growing number of projects in which AI technologies are used for DX projects, such as AI-driven development, sales are shifting from the DX to the AI category.
  - Product: Sales are recovering in line with an increase in usage fees for the Azure cloud service.

## Operating Profit / Ordinary Profit

- Gross profit: **Achieved a record high gross profit** for the third consecutive quarter, exceeding the initial plan
- SG&A expenses: Personnel recruitment expenses and personnel expenses were higher than planned (up 61.3% YoY)
- Operating profit / Operating profit margin: Operating profit recovered to a record high level but an increase in SG&A expenses led to a deviation from the plan.
- Non-operating loss: Recorded a loss on valuation of derivative and share of loss of entities accounted for using equity method

## Recruiting

- A net increase of 29 employees in the fourth quarter (compared to a net increase of 12 in the same period of FY2024).
- Annual recruiting: A **net increase of 92 employees** (compared to the planned net increase of 80 employees) and a **year-on-year net increase of 149 employees** including 57 employees of LogTech
- Target age groups in recruitment: Mainly mid- to high-level talent



# Net Sales by Service Category

(Thousand yen)

FY2023 Sales: 2,315,088

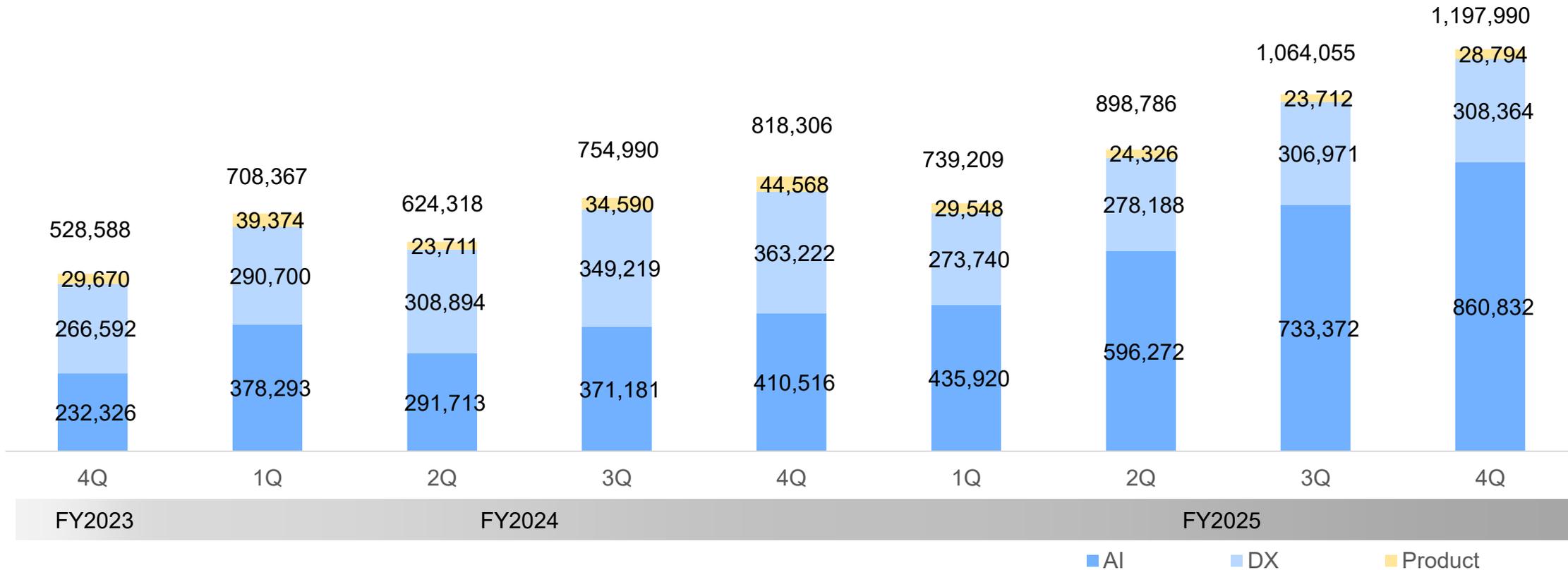
FY2024 Sales: 2,905,981

FY2025 Sales: 3,900,040

YoY: 134.2%

YoY for the Quarter: 146.4%

QoQ: 112.6%





# Cost of Sales by Service Category

(Thousand yen)

FY2023 Cost of Sales: 1,459,999

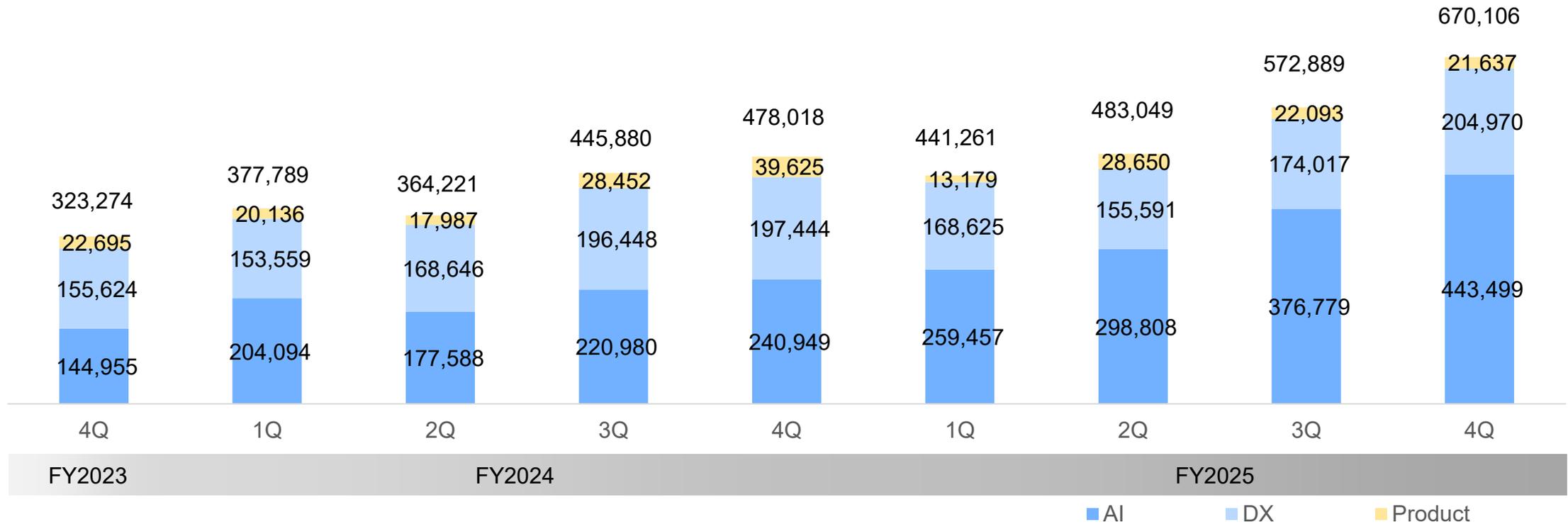
FY2024 Cost of Sales: 1,665,908

FY2025 Cost of Sales: 2,167,305

YoY: 130.1%

YoY for the Quarter: 140.2%

QoQ: 117.0%





# Gross Profit by Service Category

(Thousand yen)

FY2023 Gross Profit: 855,088

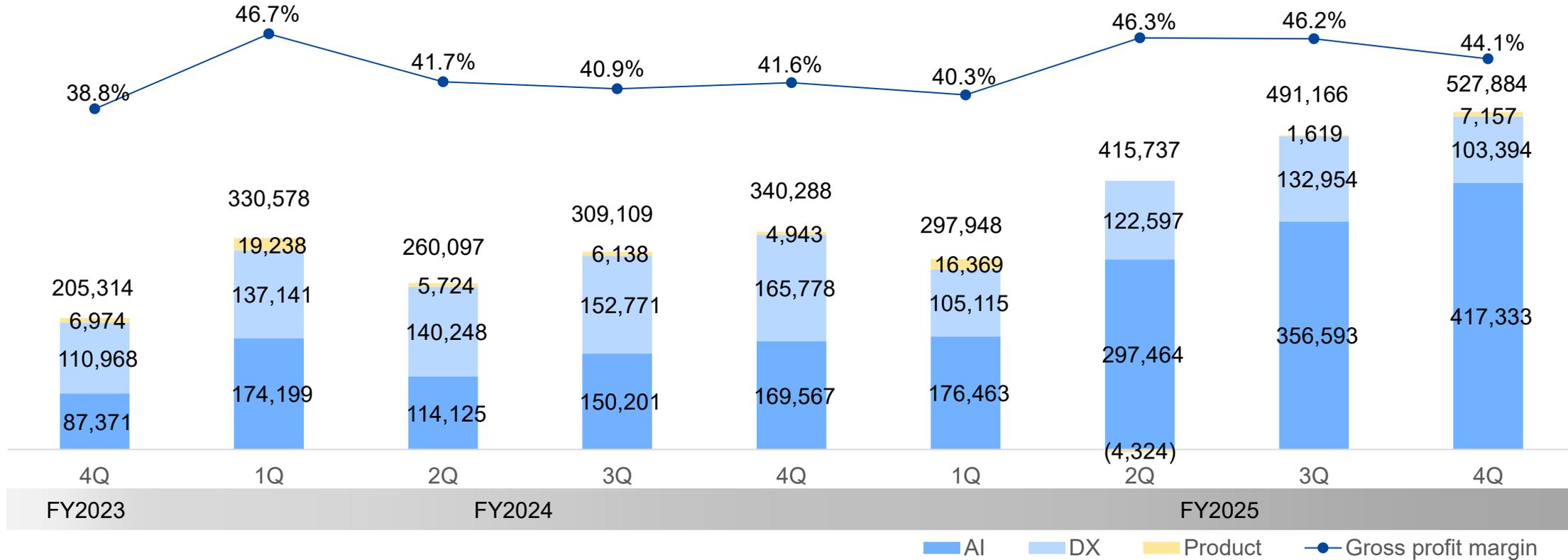
FY2024 Gross Profit: 1,240,073

FY2025 Gross Profit: 1,732,735

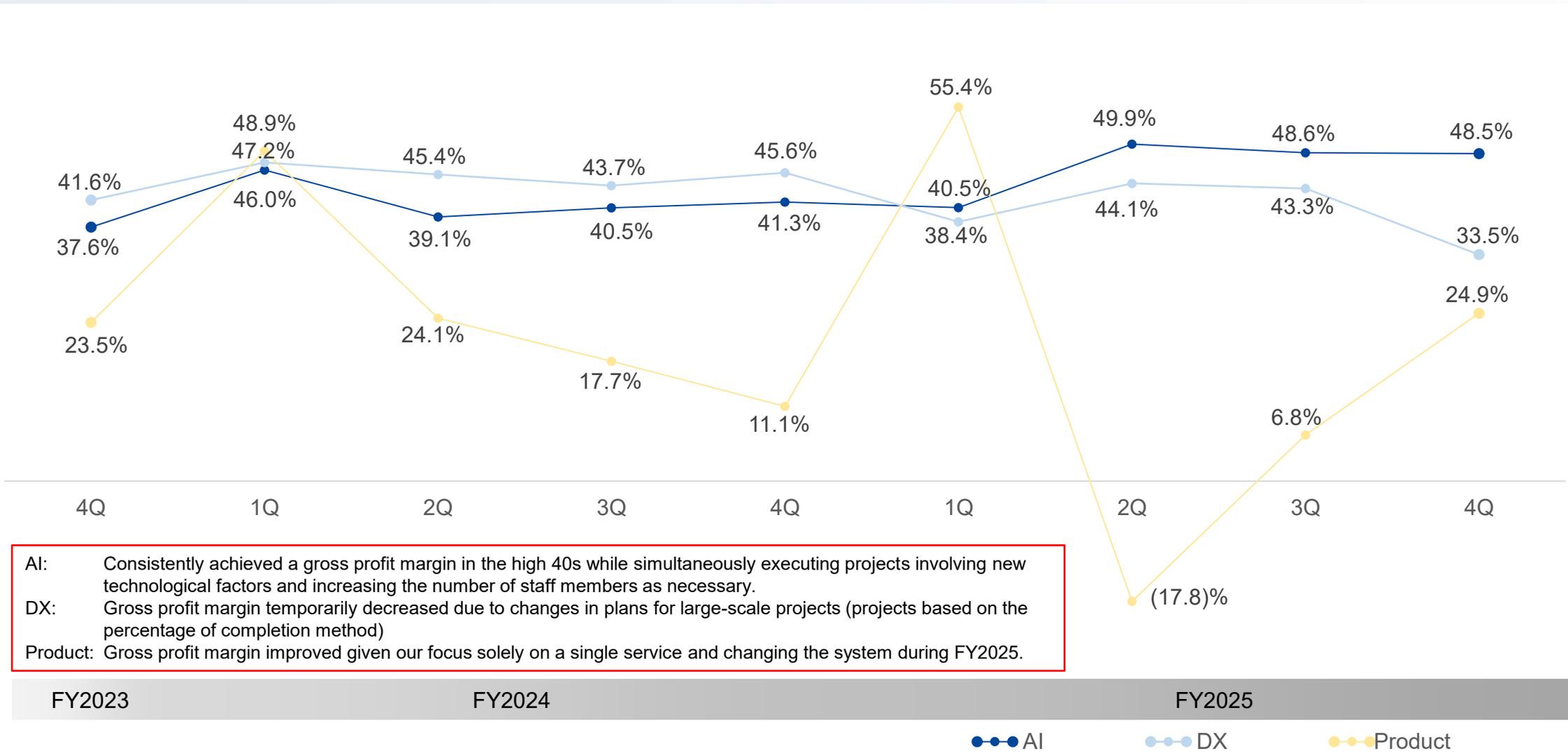
YoY: 139.7%

YoY for the Quarter: 155.1%

QoQ: 107.5%



# ▶ Gross Profit Margin by Service Category



AI: Consistently achieved a gross profit margin in the high 40s while simultaneously executing projects involving new technological factors and increasing the number of staff members as necessary.

DX: Gross profit margin temporarily decreased due to changes in plans for large-scale projects (projects based on the percentage of completion method)

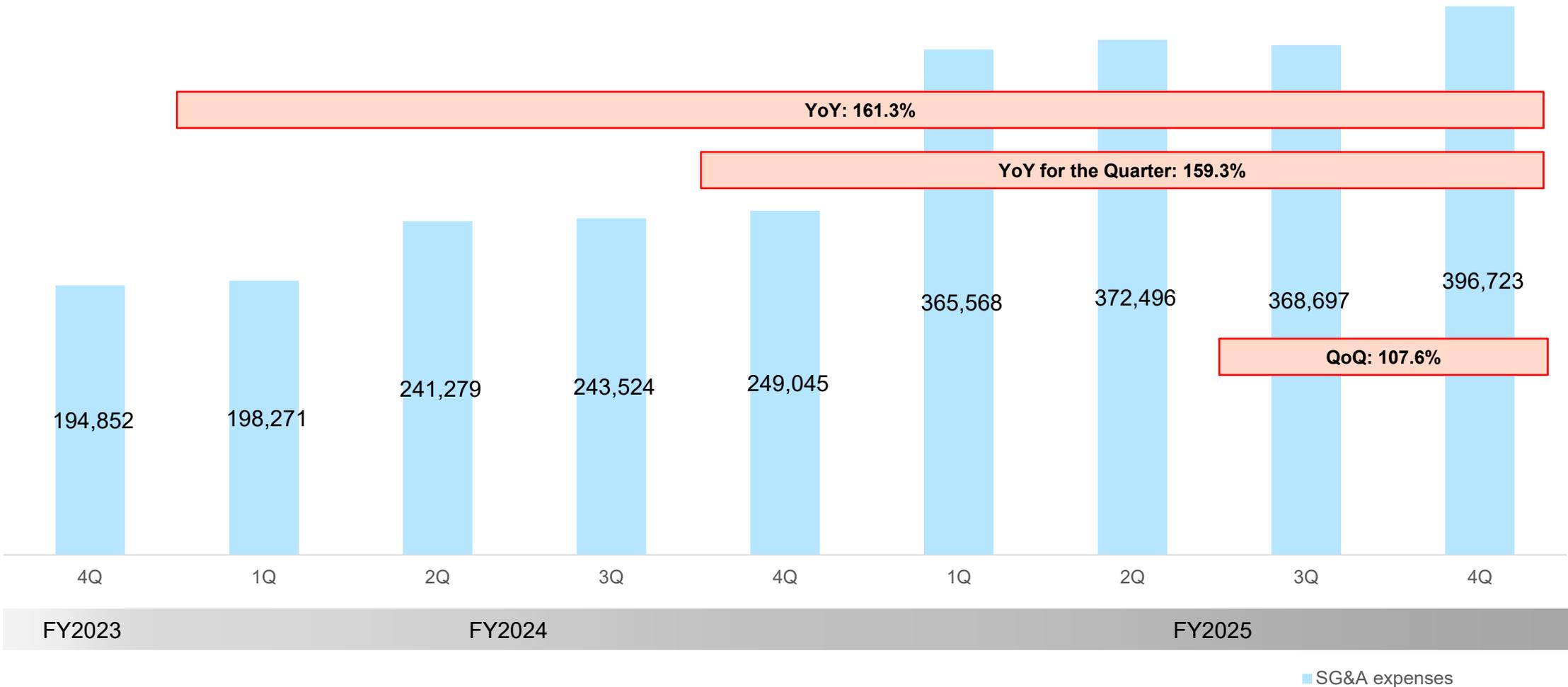
Product: Gross profit margin improved given our focus solely on a single service and changing the system during FY2025.

(Thousand yen)

FY2023 SG&A expenses: 760,227

FY2024 SG&A expenses: 932,119

FY2025 SG&A expenses: 1,503,484



■ SG&A expenses



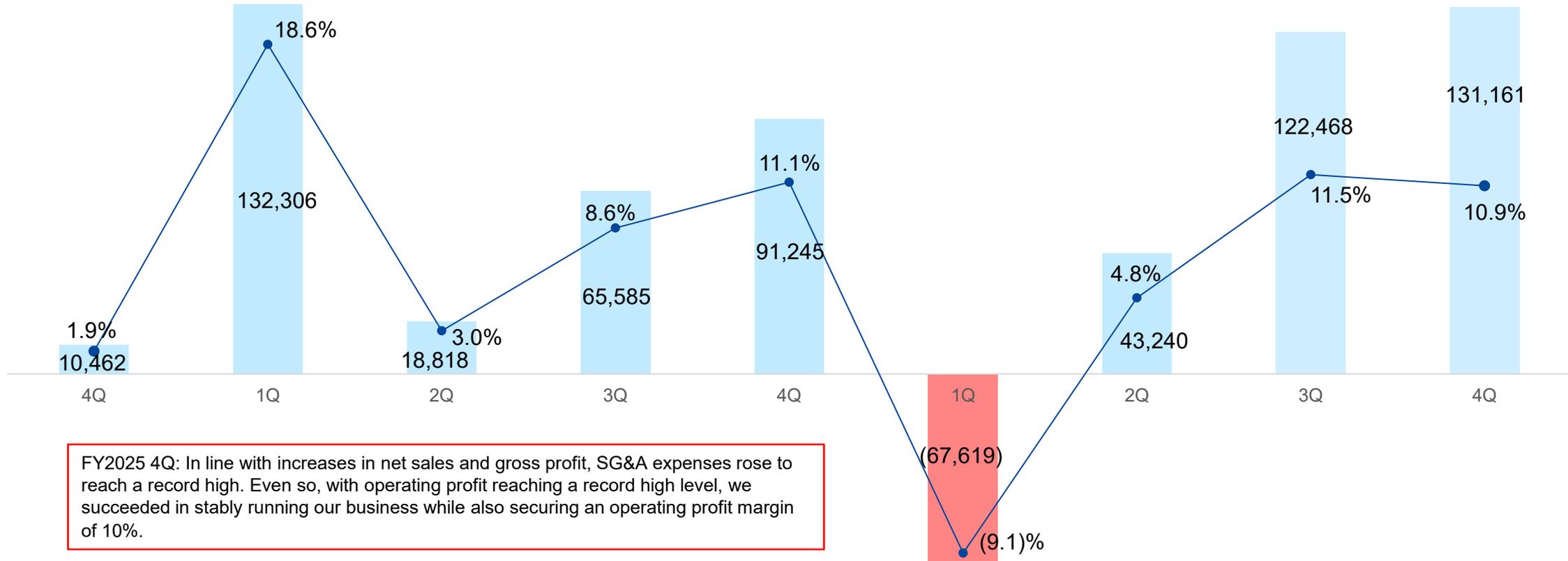
# Operating Profit / Operating Profit Margin

(Thousand yen)

FY2023  
Operating profit: 94,861

FY2024  
Operating profit: 307,954

FY2025  
Operating profit: 229,250



FY2025 4Q: In line with increases in net sales and gross profit, SG&A expenses rose to reach a record high. Even so, with operating profit reaching a record high level, we succeeded in stably running our business while also securing an operating profit margin of 10%.

FY2023

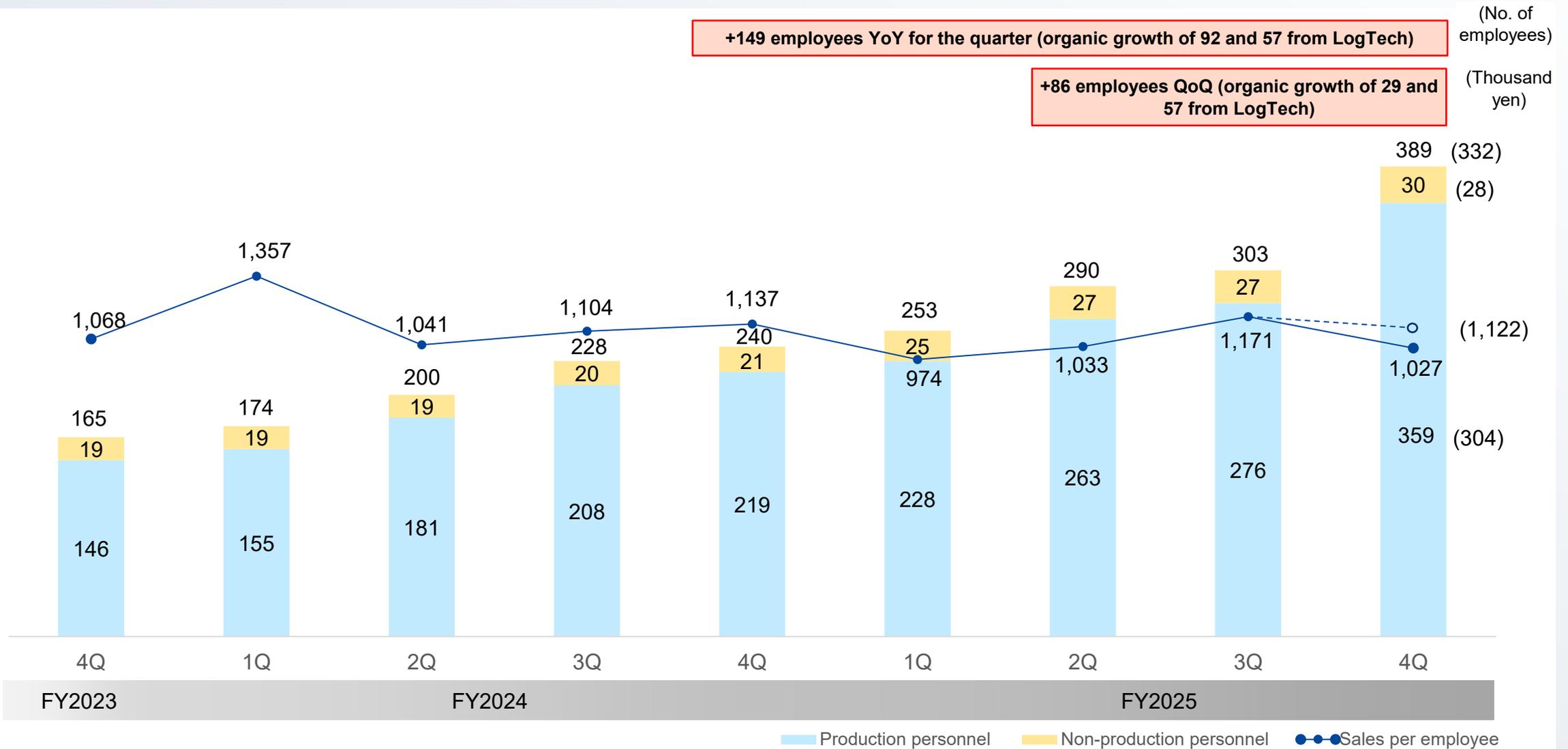
FY2024

FY2025

Operating profit

Operating profit margin

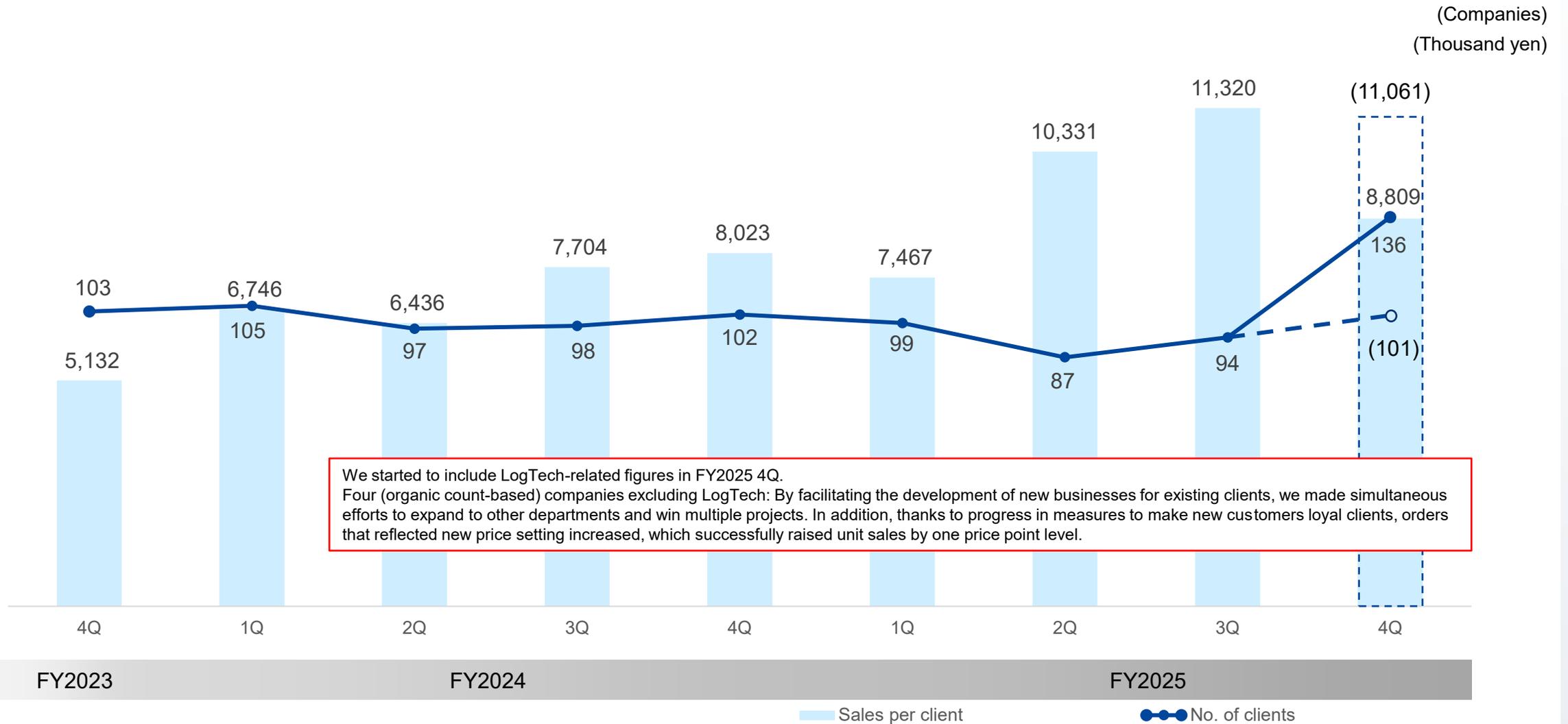
# ▶ Employees, Monthly Sales Per Employee



\* Figures in parentheses represent the organic value of four group companies, excluding LogTech.



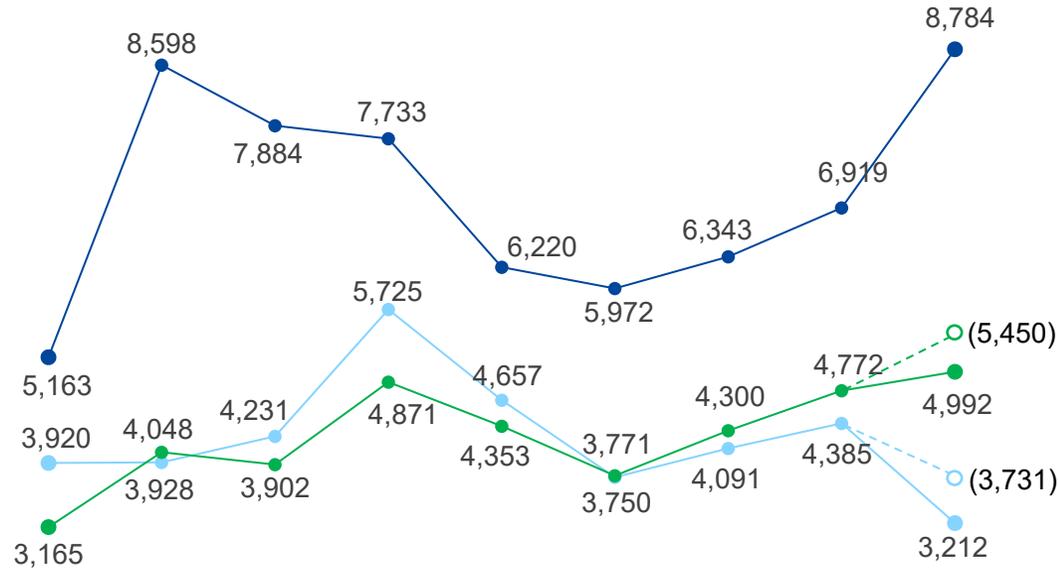
# Number of Clients and Sales Per Client



\* Figures in parentheses represent the organic value of four group companies, excluding LogTech.

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

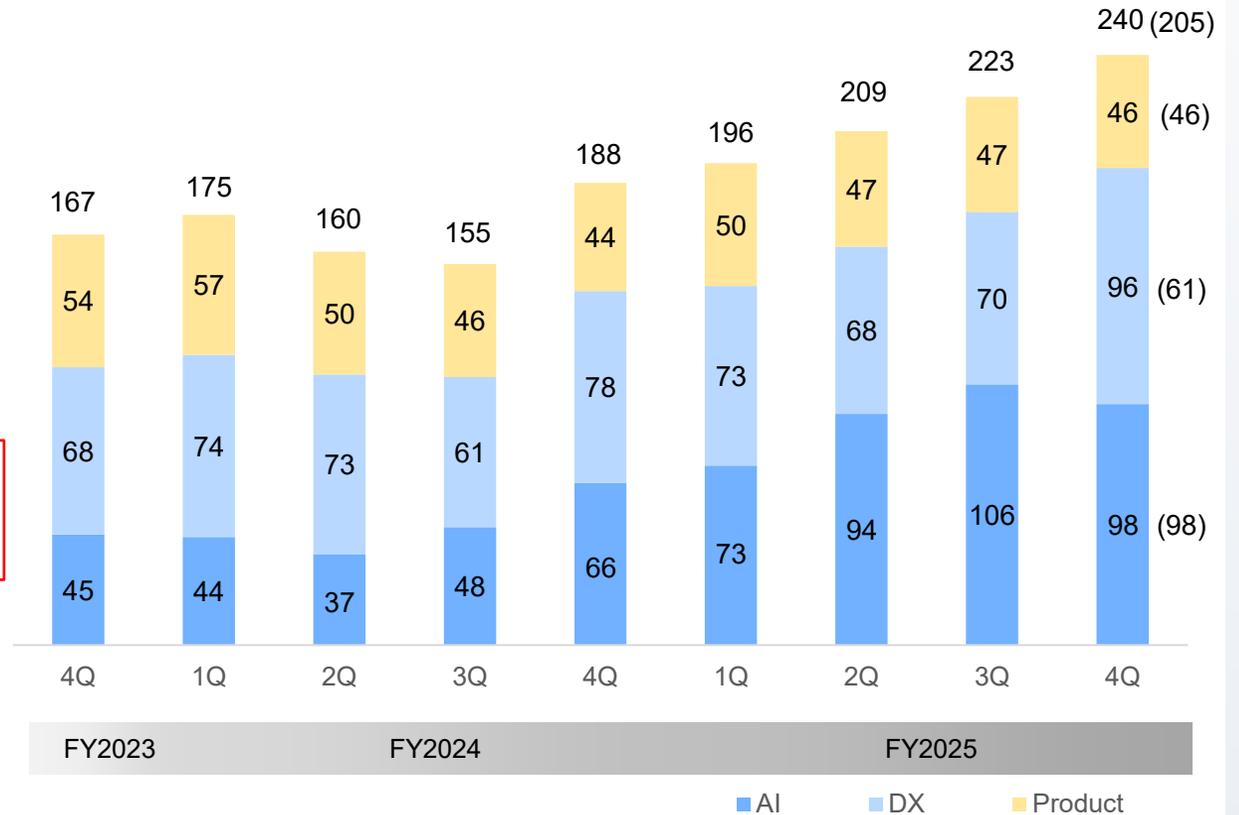
### Unit Sales Price by Service Category (Thousand yen)



In the AI category, the unit sales price per project increased to a record high, raising the average. The DX category reflects the posting of all of LogTech's sales in DX starting from FY2025 4Q and a temporary decline in unit sales price due to changes in plans for large-scale projects (projects based on the percentage of completion method). A recovery or further increase is expected in line with progress in PMI going forward.

### No. of Projects by Service Category

The alliance strategy facilitated progress in measures to make customers loyal clients. The number of projects steadily increased through sustained efforts to accumulate results in projects. The development of new businesses for existing clients facilitated progress in efforts for expanding to other departments and winning multiple projects.

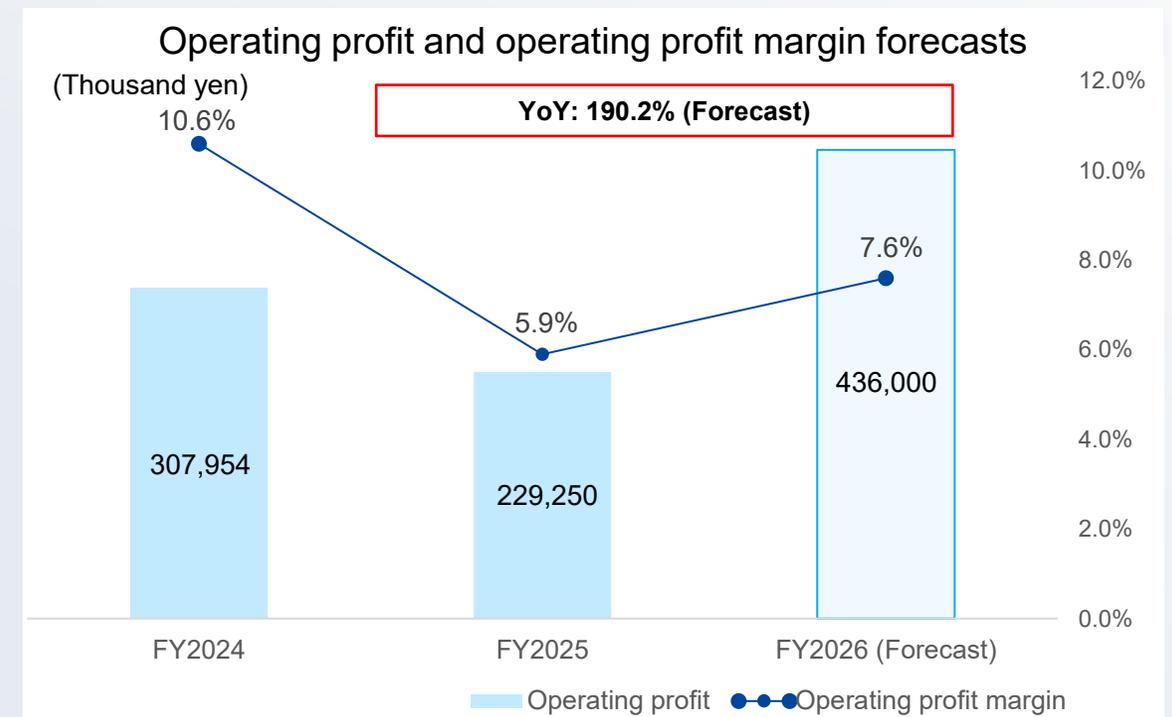
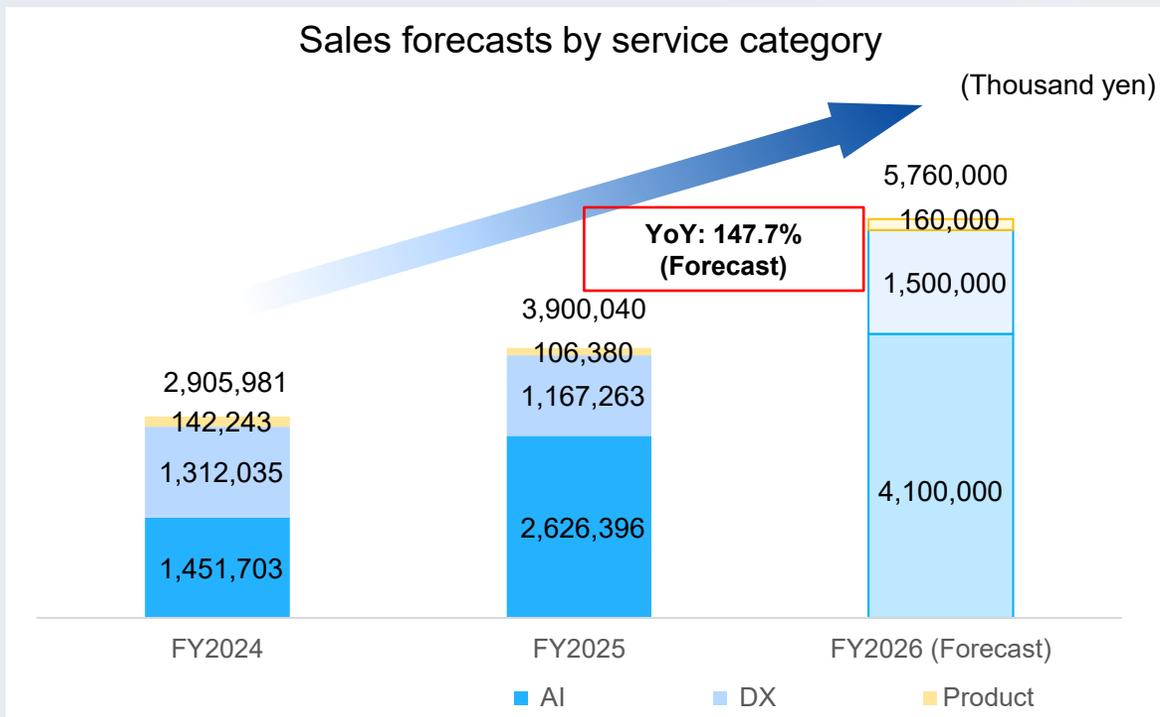


\* Figures in parentheses represent the organic value of four group companies, excluding LogTech

# FY2026 Forecast

Headwaters sees FY2026 as a period in which the AI market will continue to expand through AI agents. In response to this market environment, Headwaters has positioned FY2026 as a year for establishing a sound Group-wide foundation through PMI, 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 5.76 billion yen** with year-on-year growth of 47.7%, exceeding the growth rate in FY2025.
- Recruiting: Necessary investments will be made for **a net increase of 130 employees** and a turnover rate of 10% or less.
- Sales strategy: Efforts will be made to win orders for more projects by allocating organized sales resources to each business headquarters.
- Operating profit: While investments will be prioritized with a view toward the expansion of the volume of sales, operating profit **is expected to reach a record high**.
- Ordinary profit: **Both sales and profit are projected to increase**, despite the impact of derivatives and equity-method affiliates.



\* Forecast figures may change as they are as of the time of disclosure of these materials. The performance of the company to be merged with Headwaters is not included.

Headwaters Co., Ltd. will merge with BBD Initiative Inc. on May 1, 2026 and will move forward to the next stage of growth as the new Headwaters.

This merger is for a strategic integration to increase business scalability and establish more resilient and highly profitable business portfolios, based on the Headwaters' strengths of AI implementation and engineering capabilities.

The fusion of the two companies' technologies, human resources and customer bases will create medium- to long-term growth opportunities. The new company will provide shareholders with the new value created by this integration.

<b>Announcement date</b>	<b>January 26, 2026</b>
<b>Scheduled effective date of the merger</b>	<b>May 1, 2026</b>
<b>Scheduled date of stock de-listing (BBD Initiative)</b>	<b>April 28, 2026</b>



# Management Integration with BBD Initiative Inc. (Background/Purpose)

The most significant purpose of the management integration

- Facilitate the fusion of **technological capabilities and market development capabilities** by bringing together the two companies' management resources.
- Achieve sustainable growth and establish the leading position in the AI/DX market in both Japan and abroad.

## Changes in the market environment

The AI/DX market is growing drastically due to the rapid advancement of generative AI technologies, while simultaneously making its competitive environment increasingly sophisticated.

Measures should be taken quickly to **drive AI-based business transformation** from simple DX.

**Seeing the capital and business alliance established in August 2025 as an opportunity, we set out to transform business models with a firm belief in AI's potential.**

### Headwaters



**Expert in the provision of AI implementation services**

- ✓ Offers advanced technological strengths and implementation capabilities in the AI area
- ✓ Covers a range of tasks from cloud base establishment to operational efficiency
- ✓ Provides strong technological support for the digital transformation of companies

### BBD Initiative



**Undertakes the automation of operations through SaaS and BPO**

**Facilitates a significant change in the focus of the business**

**DX (SaaS) → AX (AI Transformation)  
Service → AI as a Service**

# Management Integration with BBD Initiative Inc. (Overall Picture of the Integration)

## Management integration scheme

### Integration in a spirit of equality

Method: Absorption-type merger  
 Conditions: Based on the assumption that approval is given at the General Meetings of Shareholders of the two companies



**Headwaters Co., Ltd.**

Surviving company



**BBD Initiative Inc.**

Dissolved company



Headwaters Professionals Co., Ltd.



Headwaters Consulting Co., Ltd.



DATA IMPACT  
JOINT STOCK COMPANY



LogTech Corporation



BlueTec Inc.



RocketStarter Inc.

**ArchitectCORE**

ArchitectCore Inc.



Net Business Support Ltd.



BoostMarketing Inc.

Headwaters Co., Ltd.

Continued listing on: Tokyo Stock Exchange,  
Growth Market

## Merger ratio

Headwaters  
1 share

**1**

:

BBD Initiative  
1 share

**0.5**

BBD Initiative Inc.

Date of delisting: April 28, 2026

\* Number of shares to be allotted: 2,260,412 shares of common stock

\* Fractional shares: The purchase system may be used and cash payment will be made for any fraction.



**2025**

## Equity and business alliance with BBD Initiative

- We felt that the BBC Initiative would become a partner with which we would be able to improve the scalability of each business and build highly profitable business portfolios. With this in mind, we established a capital and business alliance with the company to integrate assets owned by BBD Initiative, such as knowledge on the provision of products, the customer base with a focus on small- and medium-sized companies and human resources, with those held by the Group.
- Through joint projects and product-based collaboration, we confirmed the level of affinity and synergy between the two companies' businesses from the perspective of practical work.

**2025-2026**

## Consideration of management integration - Conclusion of the merger agreement

- Given the accelerated arrival of an AI-based society in line with progress in the advancement of the AI solutions business, it became increasingly essential to integrate capital, human resources, technologies and financial foundations.
- Terms of conditions, including the merger ratio, were carefully discussed with the involvement of the Board of Directors, special committees, third-party evaluation organizations and advisers of the two companies.
- The Board of Directors of the two companies resolved to sign a merger agreement and made an announcement on January 26, 2026.



## Ensuring independence

---

- The two companies requested each independent third-party evaluation organization to determine the merger ratio and validated the fairness and reasonableness of thereof by using multiple evaluation methods (market share prices, comparison with similar companies and DCF).
- Headwaters sought to obtain advice from independent third-party advisers while also soliciting opinions from them with respect to the reasonableness of negotiation processes and conditions before making its final decision in consideration of the details of such advice.

## Due diligence and adviser

---

- The two companies scrutinized the risks and synergies by implementing legal, financial and taxation due diligence.
- An agreement was reached by holding a number of discussions on the merger ratio and other conditions while simultaneously receiving advice from law firms, FAs, accounting experts, etc.

## Approach for determining the merger ratio

---

- Efforts were made to take into comprehensive consideration a range of factors, such as the two companies' financial situations, asset status, future business plans, as well as the market evaluation thereof.
- The final agreement was reached with the merger ratio that was judged to be at a level considered to serve general shareholders' interests, which fell within the range calculated by the third-party evaluation organization appointed by Headwaters.



## Offering new technology-based social implementation to many companies, featuring more diverse options

---

- We had been facilitating AI implementation for enterprises through the alliance strategy by leveraging high-level responsiveness to new technologies including AI, as well as the strength of a customer-centric business model in which we provide comprehensive support for the entire process, including planning, introduction and operation. In doing so, the key challenge was how to broadly apply such knowledge to a range of markets to ensure that they lead to future growth.
- We chose to integrate with BDD Initiative, a company that has the necessary business knowledge and customer base, to increase the possibility of sustainable growth through the incorporation of AI functions in SaaS products and to develop such functions extensively for small- and medium-sized enterprises.

## Growth opportunities

---

- We will aim to provide services that we have been unable to provide by ourselves with unprecedented speed by combining our strengths in AI implementation and R&D with BDD Initiative's AX products and customer base.
- Measures for growth such as investment in research and development, personnel recruitment and M&A will be able to be implemented by leveraging a stronger financial base.
- To secure profits, the BDD Initiative will facilitate the withdraw of businesses that are not in line with the vision, including those that are unprofitable, before the merger takes place.

## Positive impact on shareholder value

---

- Synergy will be created through the fusion of the two companies' management resources, and shareholders will be able to receive benefits from the growth in the form of capital gains.
- We will increase the efficiency of investing in AI and AX areas by expanding the scope of application of AI implementation capabilities, which we have nurtured over years, to BDD's customer bases and business domains.

Parameters specifically related to sales in the billions of yen, which have been accumulated through SaaS

**AI-related data**

100 sales partner companies, through which we can accelerate sales

**Operating assets**

Customer base of approximately 7,000 companies centered on SMBs

**Operating assets**

One of the largest, fresh and high quality BtoB corporate data in Japan

**AI-related data**

Approximately 150 outstanding engineers

**AI engineers**



# Business Growth Strategy Through Management Integration (Creation of Three Types of Value: Synergy)

We will achieve sustainable growth through the integration of the two companies' strengths.

## Establish the leading position in the AI and DX market

### Fusion of technologies and products

Expertise in AI implementation  
×  
SaaS product portfolio

- Developing next-generation "AI as a Service" through the integration of expertise in advanced AI implementation and SaaS products.
- Enhancing the added value of existing SaaS and creation of new solutions

Promote up-selling and cross-selling

### Integration of human resources

Bring together AI engineer resources

- Improving recruiting competitiveness and strengthening the AI-related personnel development system
- Maintaining a balance between development speed and quality while also increasing the number of projects to be handled

Strengthen R&D (generative AI / predictive analytics)

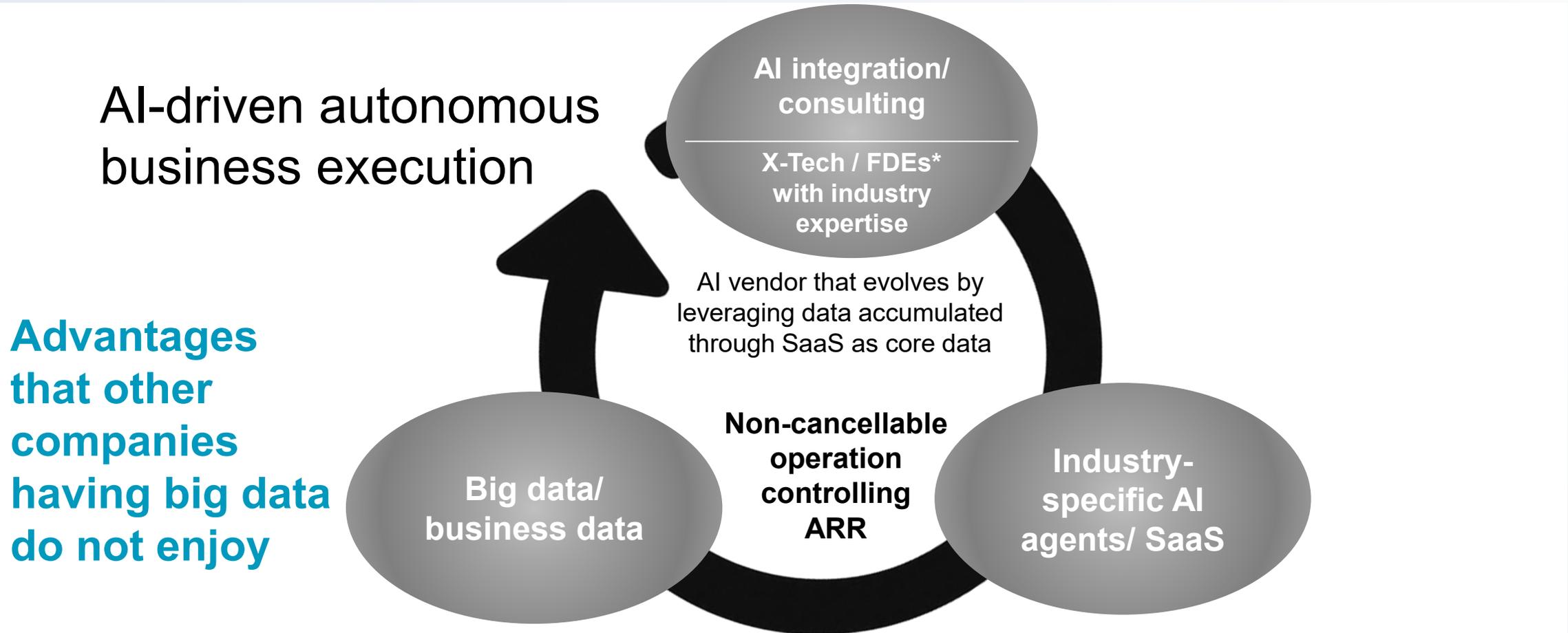
### Stronger financial base

Boost credibility by increasing corporate value

- Maintaining a system in which measures are flexibly taken to deal with R&D, M&As and new investments
- Establishing a base that is able to flexibly respond to large-scale industry restructuring

# Business Growth Strategy Through Management Integration (Strength Expected to Be Demonstrated after the Integration, and Long-Term Vision)

We will apply the expertise developed through AI implementation and collaborative support for enterprises to the product business to ensure that new technologies including the AI agent are utilized by a range of companies. We will use data obtained through these efforts as the core of value creation and create new added value by combining them with new technologies, while simultaneously ensuring that clients can also benefit on site from such achievements through the "X-Tech FDE" service, thereby realizing "AI-driven autonomous business execution."



\*An FDE refers to an engineer assigned to a client's front-line position. He/she works closely with the client on an on-site basis while simultaneously playing the role of a bridge between technology and operations.

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

## ■ Timely disclosure

- ✓ Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2025
- ✓ Financial Supplementary Materials for the Third Quarter of FY2025

## ■ Achievements / Services

- ✓ Headwaters enhanced the AI operator reception service in collaboration with Daiwa Securities Co., Ltd.
  - Transformed the customer experience (CX) by utilizing leading-edge technologies -
- ✓ Headwaters entered the next-generation physical AI market on a full-scale basis
  - Provision of the "autonomous thinking physical AI technology" in the enterprise market using the AI agent technology as core competence -
- ✓ Through the fusion of forward deployed engineers (FDEs), which is a global trend in AI implementation, and X-Tech, Headwaters uniquely provided the "X-Tech FDE" service with an eye toward maximizing ROI in the AI project.

## ■ Information

- ✓ Headwaters acquired the Accelerate Developer Productivity with Microsoft Azure Specialization, a higher partner certification in Microsoft - Achieving improved productivity through AI-driven development using Azure and GitHub -

- 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.
- Starting from FY2025 4Q, the figures in this document represent consolidated figures for the entire Group, including five companies, namely, Headwaters Consulting, Headwaters Professionals, DATA IMPACT JOINT STOCK COMPANY and LogTech. If LogTech-related figures have an **impact of 10% or higher** in each chart in this document, figures for the entire Group and those for the four Group companies excluding LogTech are stated separately, where the latter is indicated as an organic count.
- Headwaters included BBD Initiative Inc. in the scope of its equity method accounting.
- 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 3Q and FY2025 4Q
  - **YoY**: A comparison between the cumulative figures of the previous fiscal year and the current fiscal year
    - Comparison between figures of FY2024 1Q-4Q and FY2025 1Q-4Q
  - **YoY for the Quarter**: A comparison between the figures of the corresponding quarter for the previous fiscal year and the current fiscal year
    - Comparison between figures of FY2024 4Q and FY2025 4Q
- Unless otherwise specified, the financial information in this document is based on generally accepted accounting principles in Japan.
- Information regarding companies other than Headwaters is based on generally known information.