

# Financial Supplementary Materials

for the First Quarter of FY2026

Headwaters Co., Ltd.

May 15, 2026

Securities code: 4011

## Introduction

In connection with an absorption-type merger agreement with BBD Initiative Inc. approved by resolution of the 21st Annual General Meeting of Shareholders on March 27, 2026, starting from the first quarter of FY2026 (January to March 2026), we will make the following changes and adjust the disclosures made in these materials in order to more appropriately reflect the actual status of our businesses and future growth strategies.

## Business transition and renaming

Due to the evolution of AI agents and the increasingly sophisticated AI utilization needs of companies, we will transform the AI solutions business, which it previously operated as a single segment, into the AI platform business.

## Splitting the business into segments

With the transition of the AI solutions business from a single segment, we will arrange business categories into the following three segments.

- ✓ Enterprise AI Solutions Business
- ✓ AI Workflow Engineering Business
- ✓ DATA & AI Engine Business

## Changing target markets

Through the loyal client strategy we have been pursuing since becoming a publicly listed company in September 2020, we have engaged in customer development targeting enterprise companies and cultivated deeper insight into our customers.

Leveraging the expertise (early-mover advantage) gained from closely aligning with our customers' businesses and collaborating with enterprise companies that actively utilize new technologies, we will secure the sales channels laterally arrayed through this latest absorption-type merger agreement and expect the markets we target to expand as a result.

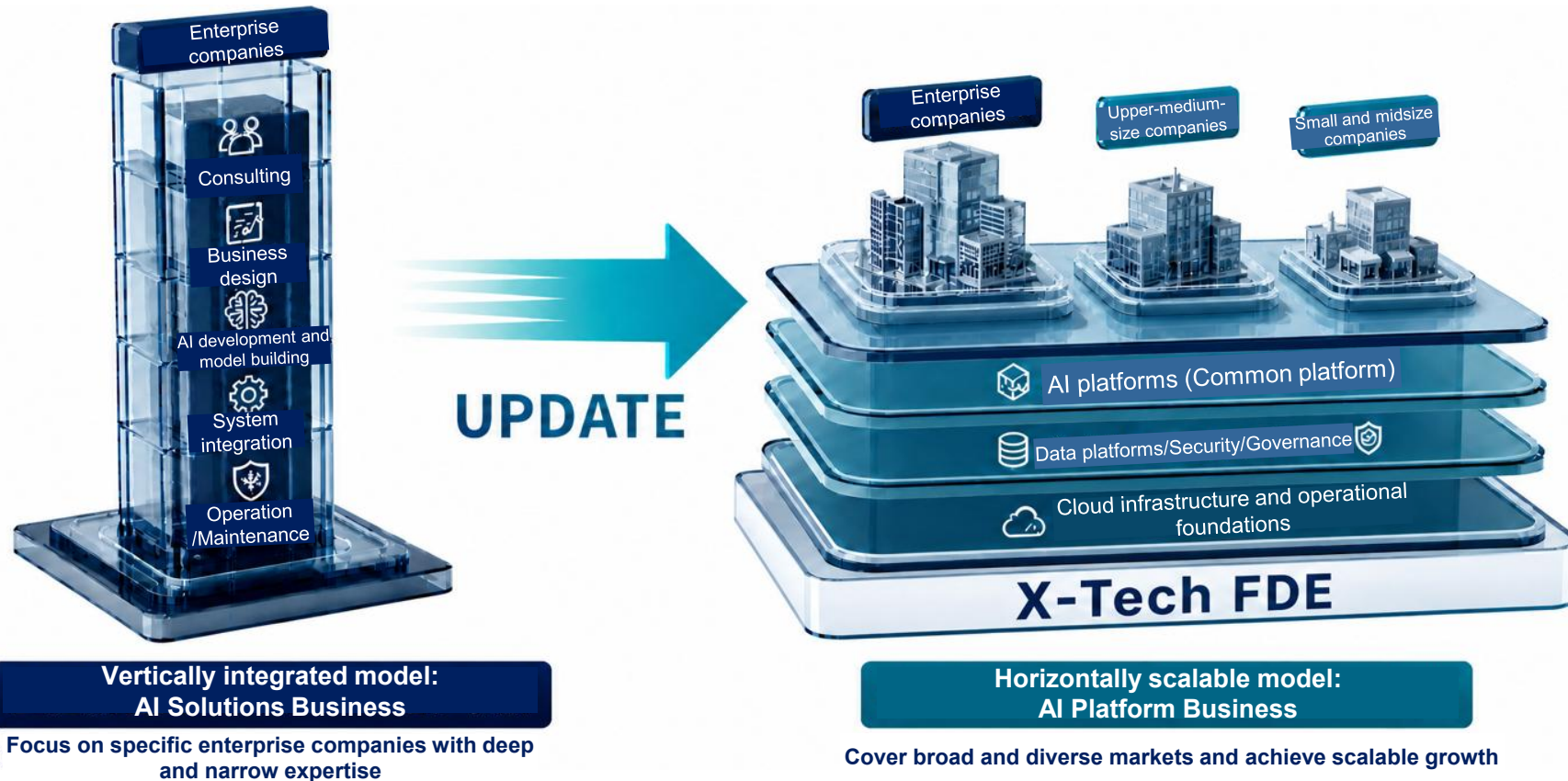
## Display of the graphs appearing in these materials

By making segment changes in connection with this merger, we will redesign our disclosure categories from the previous service-based categories (AI, DX, product) to a segment basis. We will discontinue the graphs showing trends by service category that appear in these materials over the past two years, and starting this fiscal year, present financial results as segment-based performance information. As these materials will only include disclosures for the first quarter of the fiscal year, we will present the information in table format instead of graph format (Refer to page 8). In addition, for reference purposes, we will include the previous service category-based graphs from page 19 onward.

# ▶ Business Renaming

## AI Solutions Business → AI Platform Business

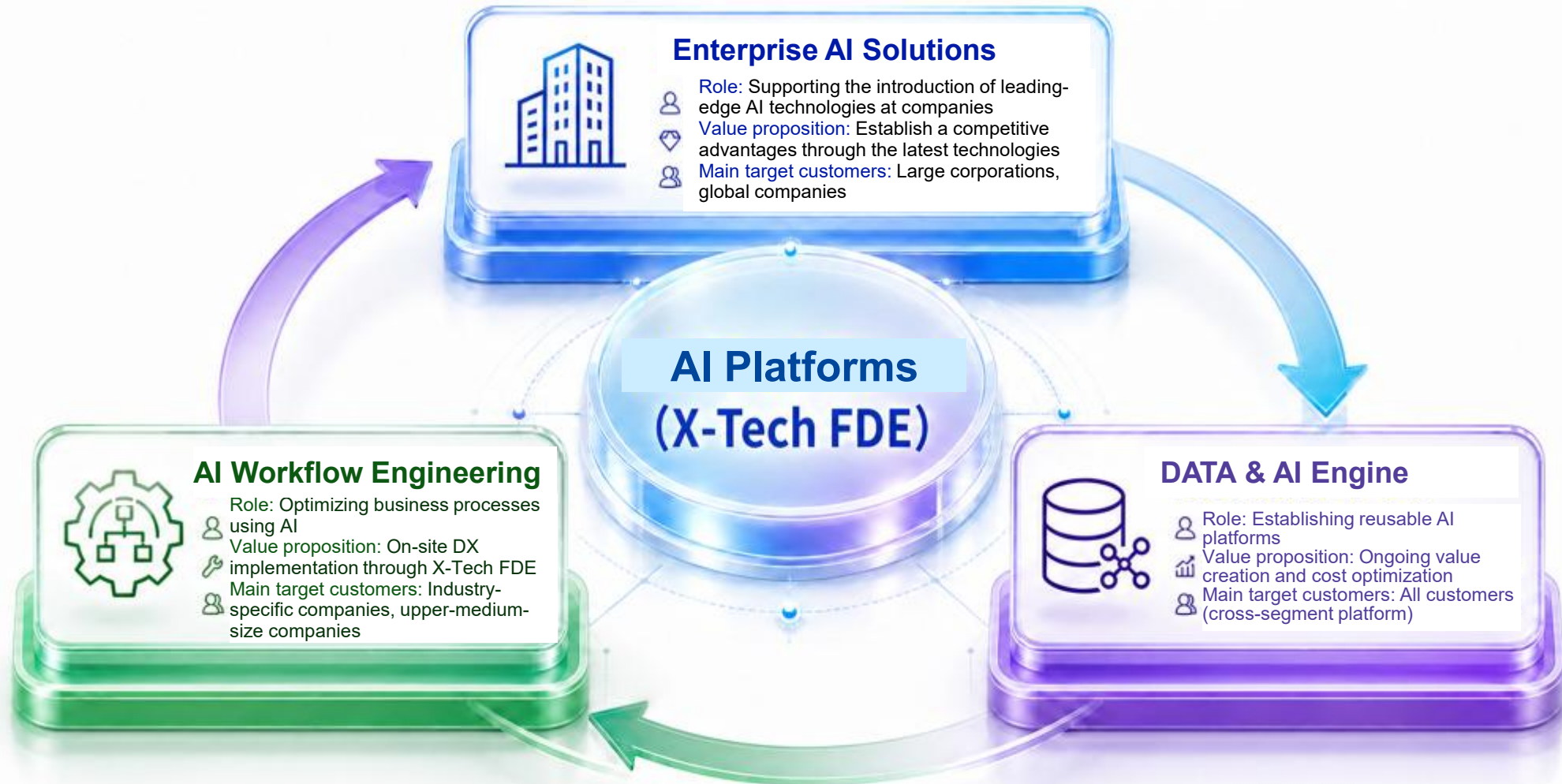
- Shifting from an end-to-end vertically integrated business model for loyal clients to a horizontally scalable model that encompasses upper-medium-size, small and midsize companies
- Based on hands-on support driven by X-Tech FDE\*, we will broadly scale early examples of new technology implementations as unique expertise



\* X-Tech FDE is a method used to realize Forward Deployed Engineering (FDE) using various types of technology (X-Tech). FDE is an approach where engineers work together with the people on the front lines of the client's operations to responsibly implement and develop AI and DX products until value is created. Unlike conventional approaches, engineers' work does not end when a system is installed because the value is provided through a continuous approach, including the identification of issues and updating of products with new technologies.

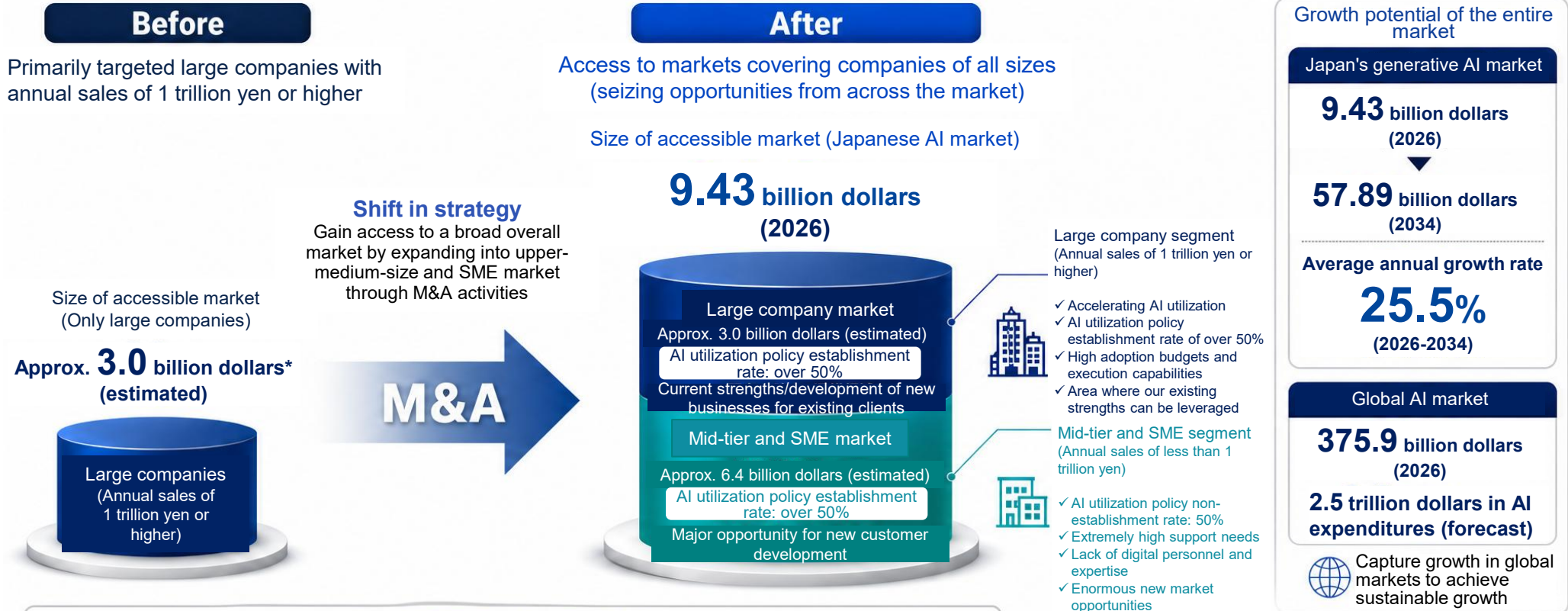
# ▶ Changes to the Segment Composition

The AI Platform Business will be made up of three segments



# ▶ Changing Target Markets

Through our M&A strategy, we will gain access to all segments of Japan's 9.4-billion-dollar AI market



**Expand market opportunities by around three times through M&A activities**

- Expand market access**  
Shift from only large companies (approx. 3 billion dollars) to all segments (9.43 billion dollars)
- Maximization of growth opportunities**  
Capture the strong needs of SMEs to secure a driver of sustainable growth
- Social impact**  
Promote AI utilization across all Japanese companies to contribute to higher productivity and enhanced competitiveness

**Secure overwhelming growth opportunities through access to all segments of Japan's 9.4 billion dollar AI market**

Sources: Gartner (September 2025), Renue.co.jp AI Industry Report 2026, Ministry of Internal Affairs and Communications 2025 White Paper on Information and Communications  
\* The market size of large companies was estimated by Headwaters based on various publicly available information.



# FY2026 1Q Consolidated Financial Results Overview

(Thousand yen)

(Thousand yen)

	FY2025 1Q Results		FY2026 1Q Results			
		Pct. to net sales (%)		Pct. to net sales (%)	YoY change (%)	Full-year forecast achievement rate (%)
<b>Net sales</b>	<b>739,209</b>	<b>100.0</b>	<b>1,262,400</b>	<b>100.0</b>	<b>170.8</b>	<b>14.8%</b>
Enterprise AI Solutions	709,077	-	1,108,299	-	156.3	20.1%
AI Workflow Engineering	96,375	-	246,516	-	255.8	9.3%
DATA & AI Engine	-	-	-	-	-	-
<i>Inter-segment sales</i>	66,243	-	92,415	-	-	-
Operating profit (loss)	(67,619)	-	135,293	10.7	-	18.0%
Ordinary profit (loss)	(2,865)	-	52,075	4.1	-	8.4%
Profit (loss) attributable to owners of parent	(20,619)	-	12,449	1.0	-	3.2%
Basic earnings (loss) per share	<b>(5.43) yen</b>		<b>3.24 yen</b>			

\*There is no FY2026 1Q sales in the DATA & AI Engine Business because they are expected to be recorded from the 2Q and beyond, when sales of BBD Initiative Inc. and affiliated subsidiaries are to be recognized.

\*The full-year forecast achievement rate is based on the revised forecasts that were announced in the May 15, 2026 notice regarding the revision of the full-year earnings forecasts



The first quarter of FY2026 marked the start of operations under a three-segment structure of Enterprise AI Solutions, AI Workflow Engineering and DATA & AI Engine, as the first year of the AI Platform Business. We hit record-high levels of both net sales and gross profit, achieving a significant turnaround into profitability from the loss incurred during the same period of FY2025.

## Net Sales

- We **achieved new record high net sales (up 70.8% YoY)** for the fourth consecutive quarter by fully tapping into demand for AI
  - Enterprise AI Solutions: We tapped into demand for AI agents, and as a result of increasing unit sale prices through the in-depth pursuit of our loyal client strategy for clients with annual sales of 1 trillion yen or higher, we achieved a significant increase in net sales **(up 56.3% YoY)**.
  - AI Workflow Engineering: The use of AI-driven development gained traction, with sales expanding with the implementation of large-scale projects.
  - DATA & AI Engine: As the first quarter preceded the merger, results will be recorded from the second quarter onward.

## Operating Profit / Ordinary Profit

- Gross profit: **Achieved a record high gross profit** for the fourth consecutive quarter
- SG&A expenses: Increased due to costs to exhibit at a Microsoft-held event, in addition to higher personnel expenses. **(up 18.1% YoY)**
- Operating profit / Operating profit margin: Concentrated resources through industry specialization in finance and manufacturing, etc., and **achieved a record-high operating profit.**
- Non-operating loss: Recorded a loss on valuation of derivatives (21,226 thousand yen) and share of loss of entities accounted for using equity method (55,243 thousand yen)

## Recruiting

- A net increase of 12 employees in the first quarter (compared to a net increase of 13 in the same period of FY2025)
- Target age groups in recruitment: Mainly mid- to high-level talent

(Thousand yen)

Enterprise AI Solutions		AI Workflow Engineering		DATA & AI Engine		Inter-segment transactions
Net sales	1,108,299	Net sales	246,516	Net sales	-	(92,415)
Operating profit	116,731	Operating profit	17,778	Operating profit	-	783
Operating profit margin	10.5%	Operating profit margin	7.2%	Operating profit margin	-	-
No. of projects	193	No. of projects	40	No. of projects	-	-
Unit sales price per project	5,742	Unit sales price per project	6,163	Unit sales price per project	-	-

\*There is no FY2026 1Q sales in the DATA & AI Engine Business because they are expected to be recorded from the 2Q and beyond, when sales of BBD Initiative Inc. and affiliated subsidiaries are to be recognized.



# Net Sales

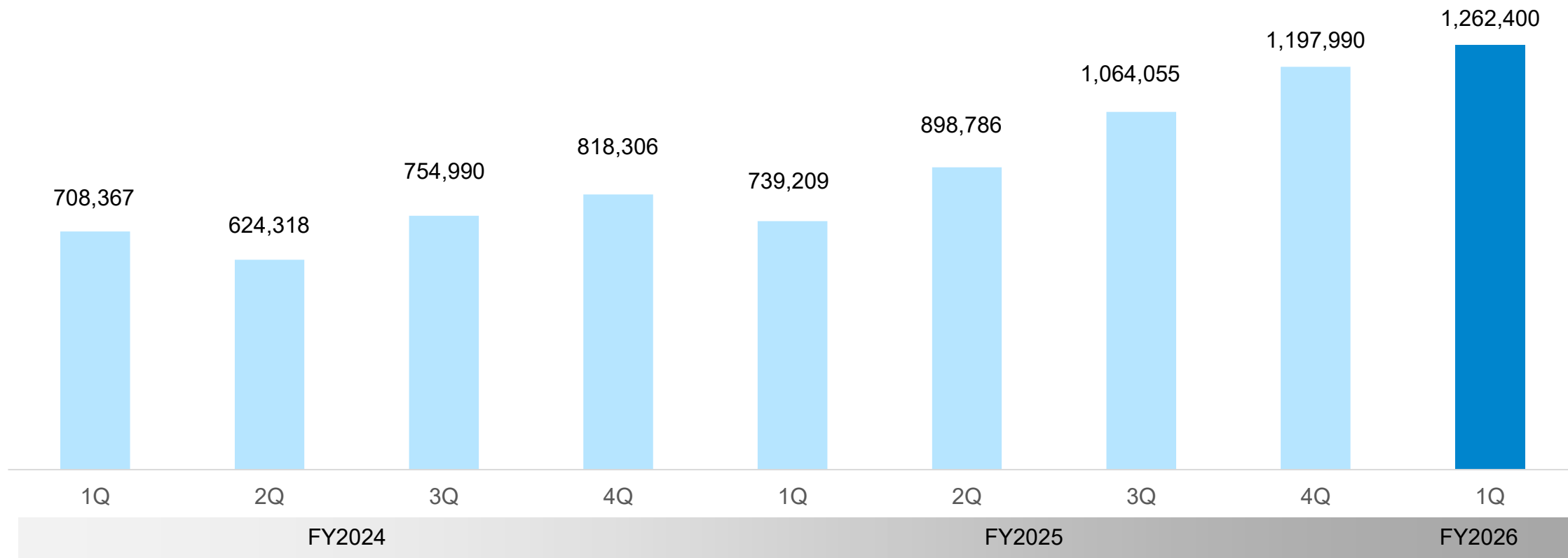
FY2024 Sales: 2,905,981

FY2025 Sales: 3,900,040

(Thousand yen)

YoY: 170.8%

QoQ: 105.4%





# Cost of Sales

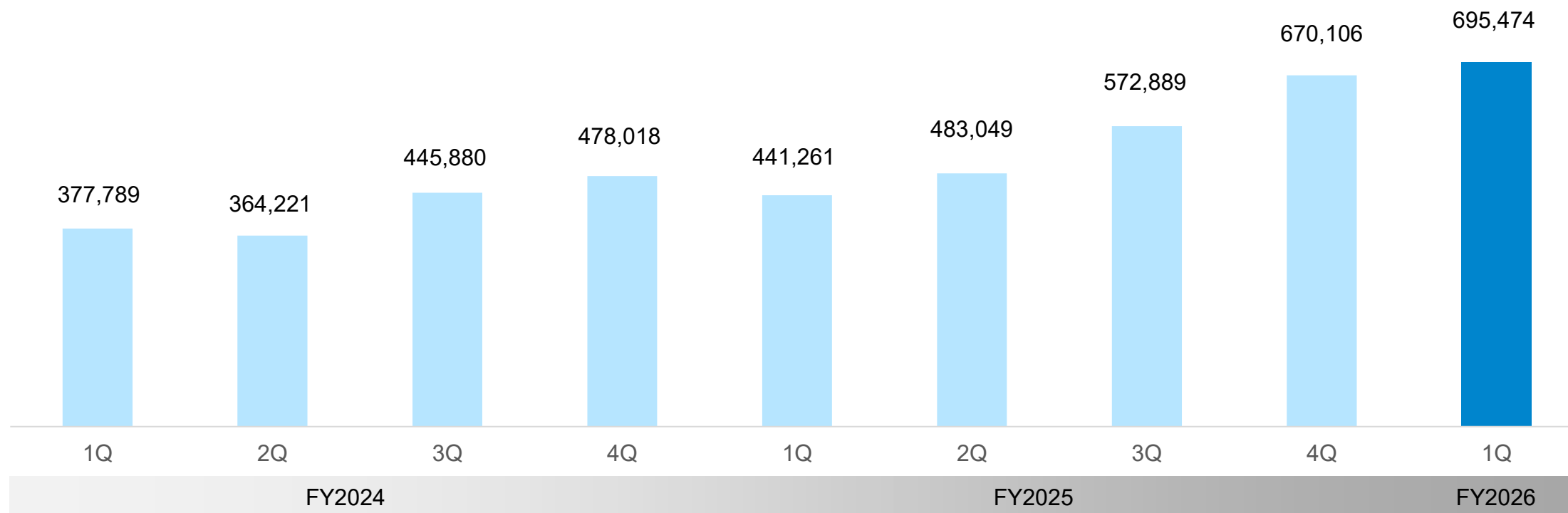
FY2024 Cost of Sales: 1,665,908

FY2025 Cost of Sales: 2,167,305

(Thousand yen)

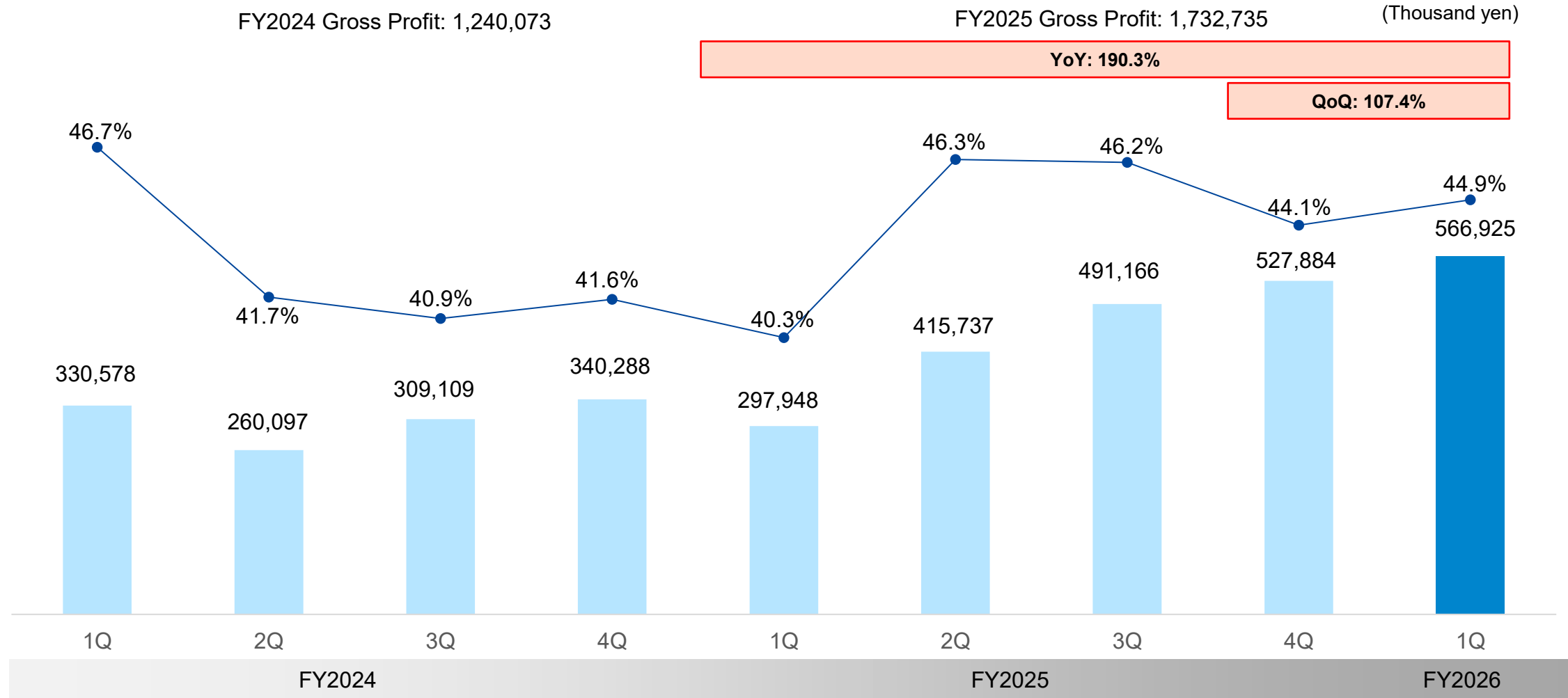
YoY: 157.6%

QoQ: 103.8%



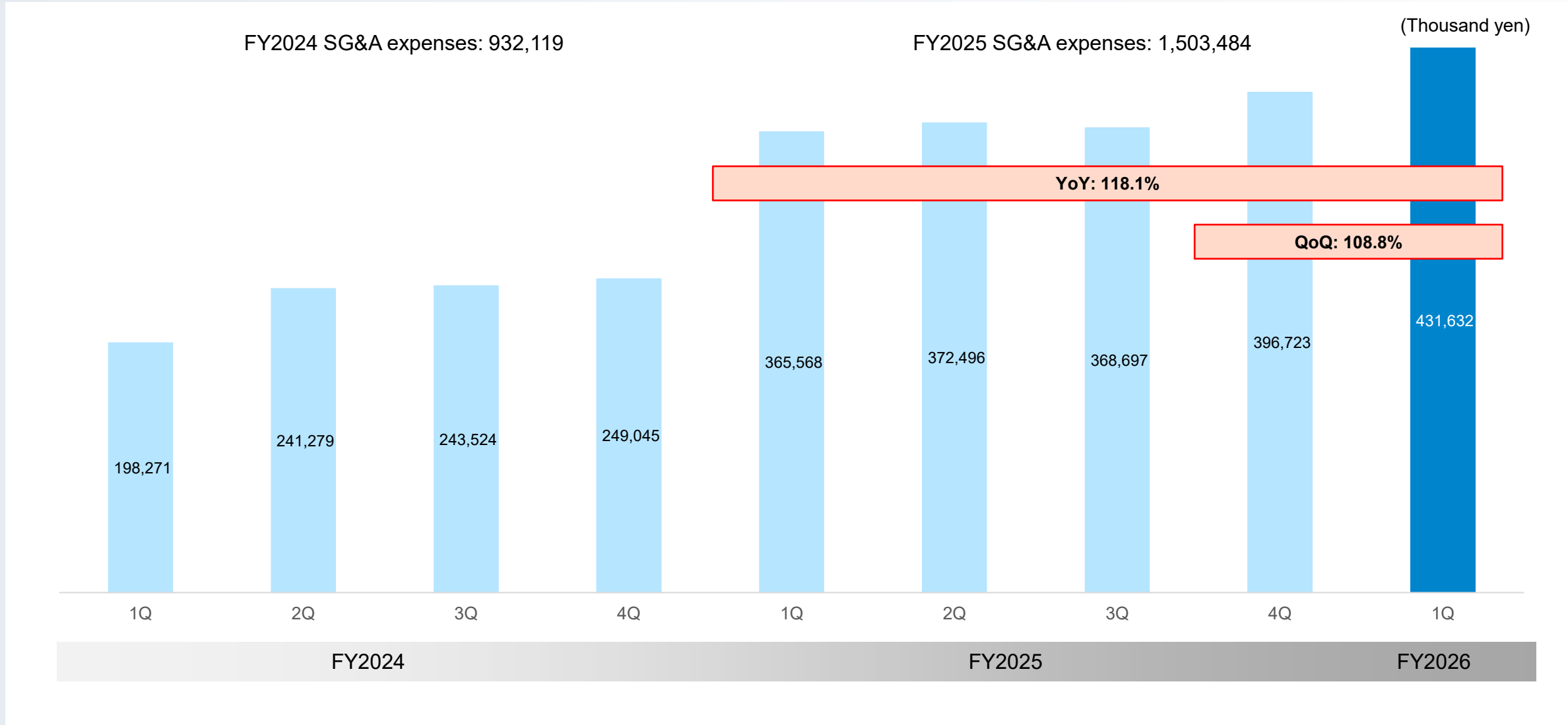


# Gross Profit



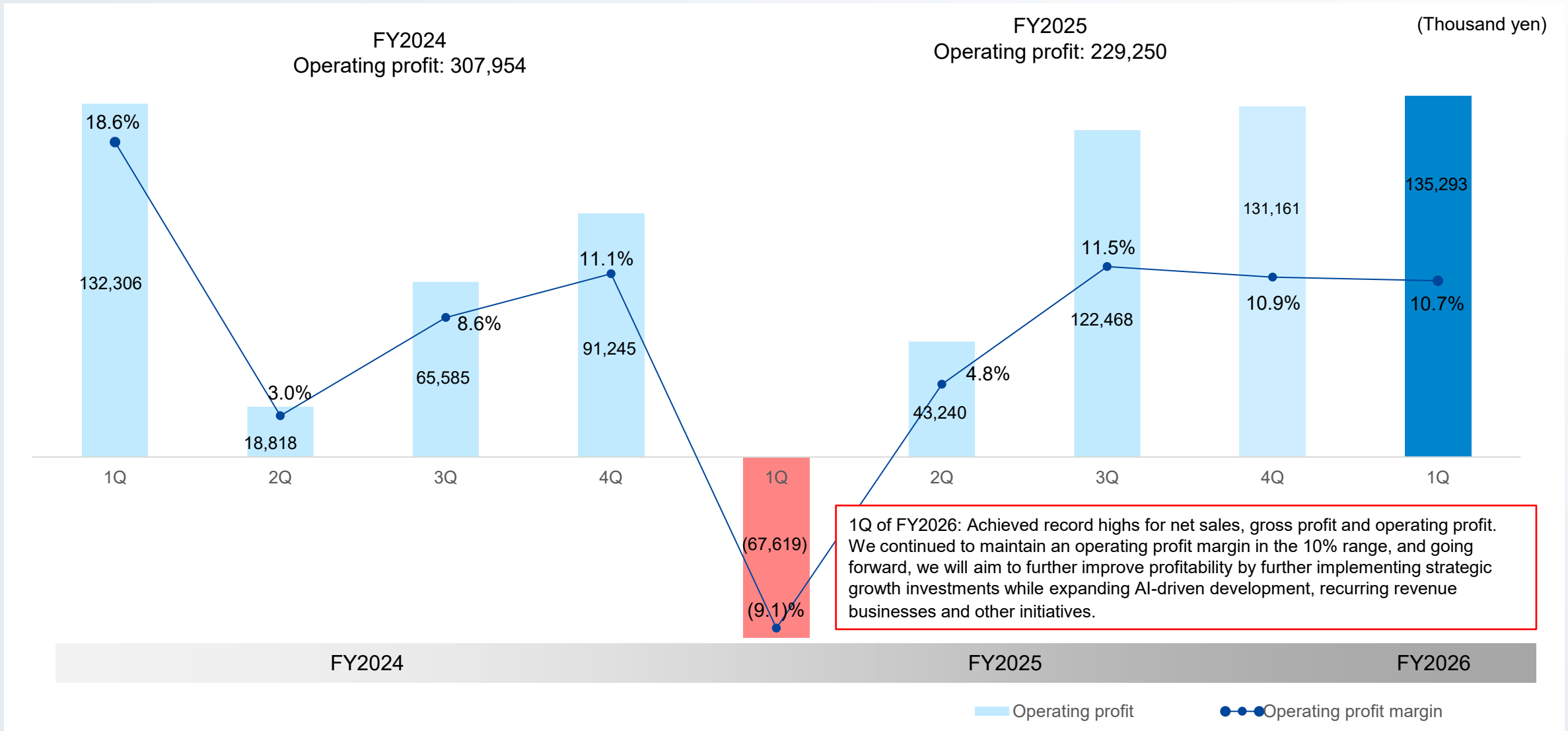


# SG&A Expenses





# Operating Profit / Operating Profit Margin

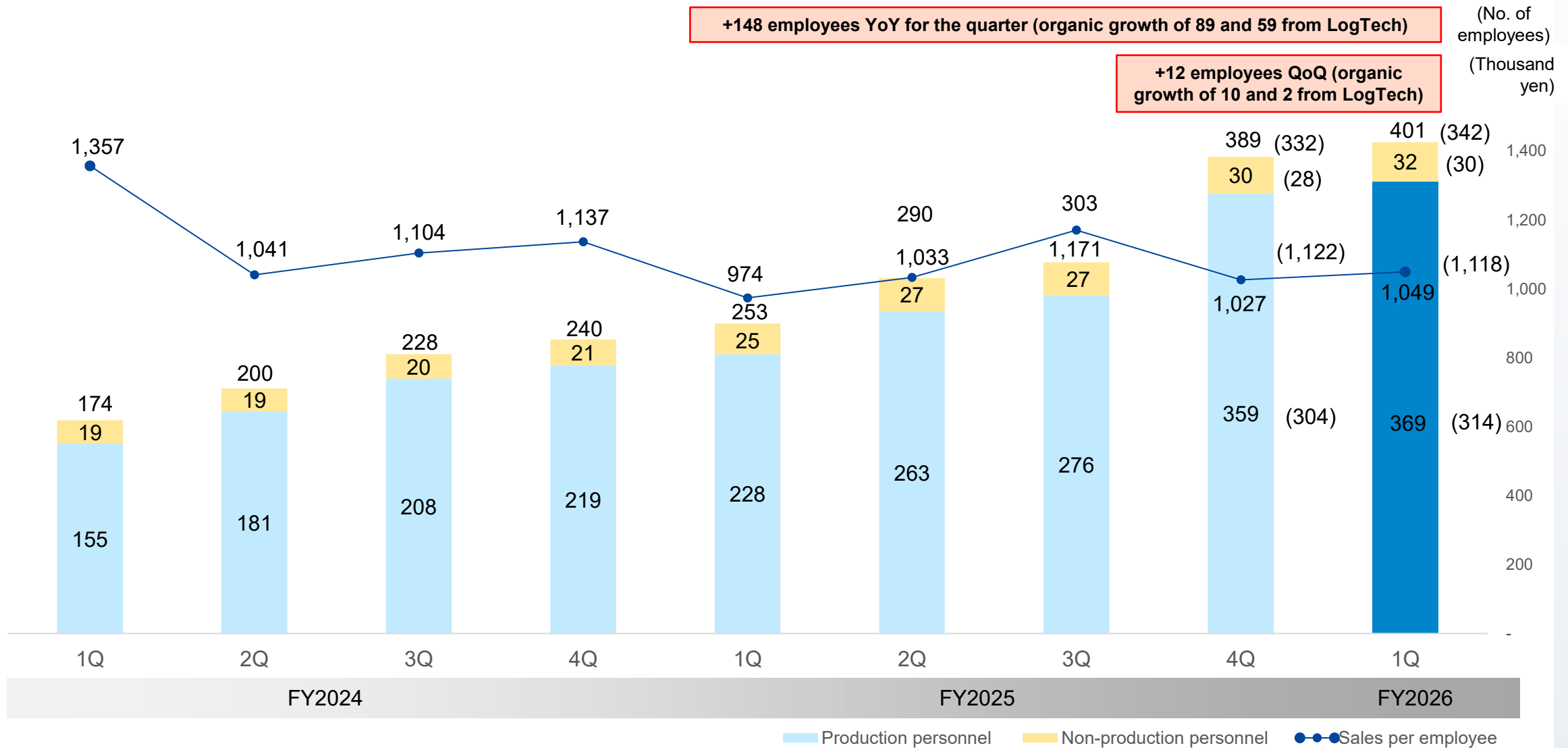




# Employees, Monthly Sales Per Employee

+148 employees YoY for the quarter (organic growth of 89 and 59 from LogTech)

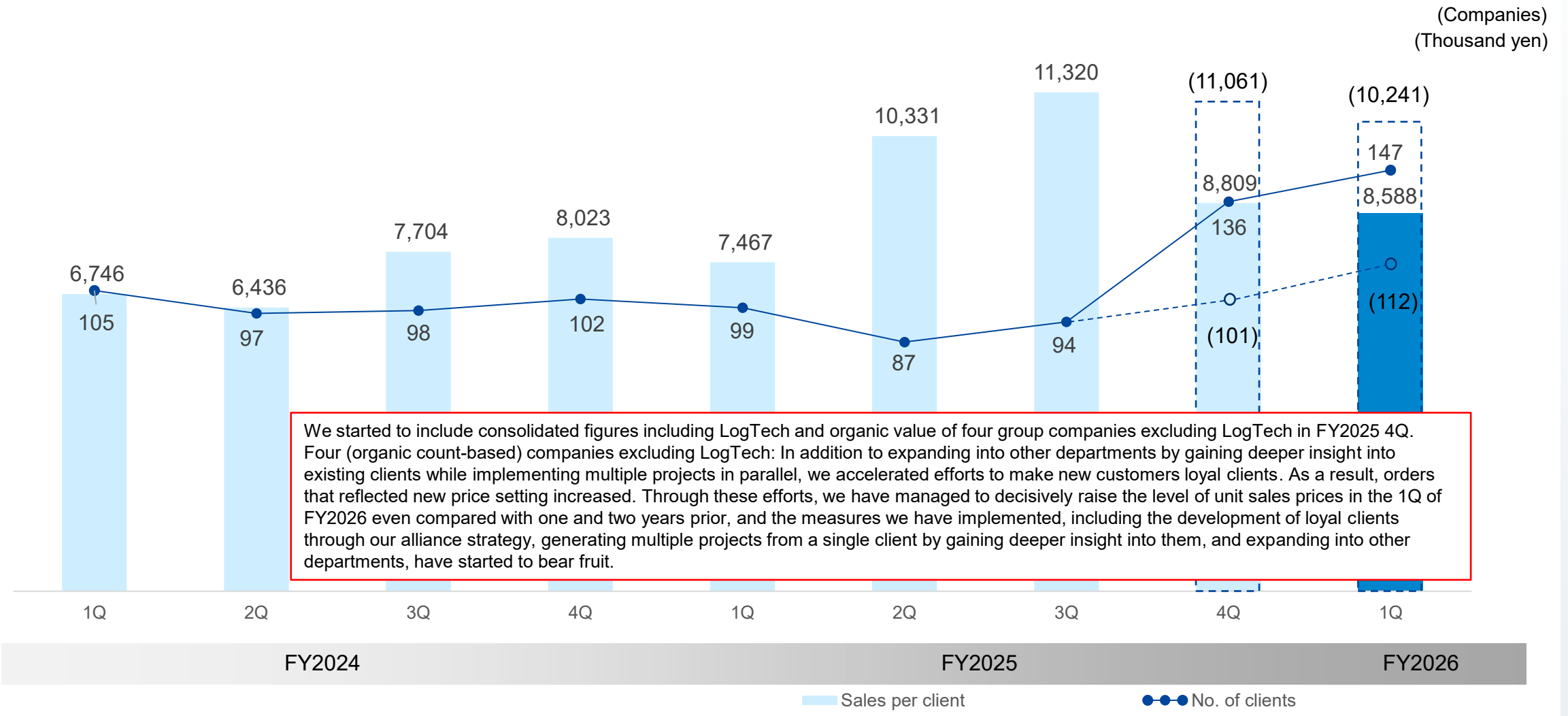
+12 employees QoQ (organic growth of 10 and 2 from LogTech)



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



# Number of Clients and Sales Per Client

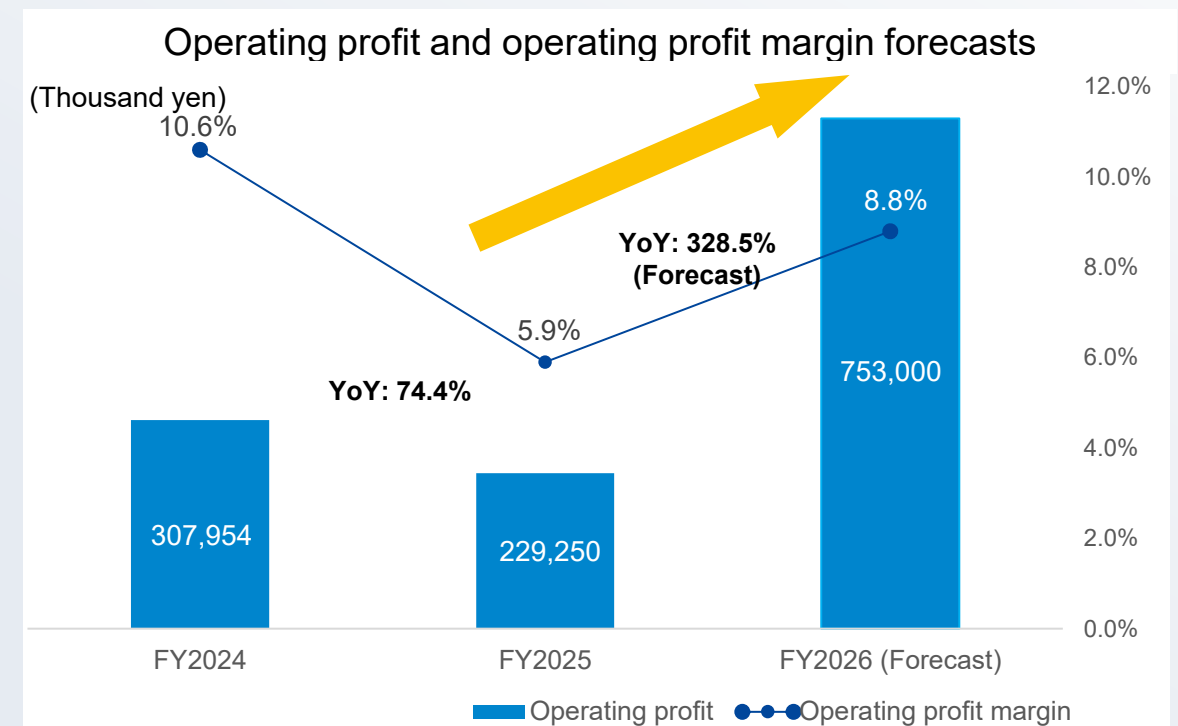
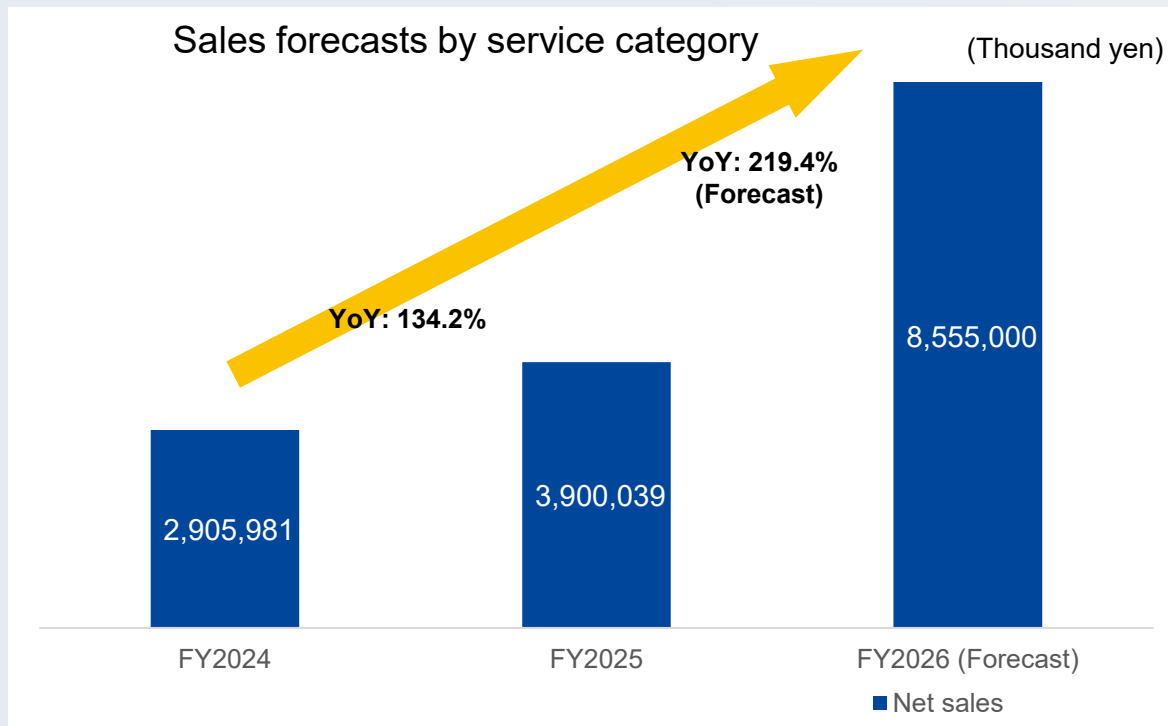


We started to include consolidated figures including LogTech and organic value of four group companies excluding LogTech in FY2025 4Q. Four (organic count-based) companies excluding LogTech: In addition to expanding into other departments by gaining deeper insight into existing clients while implementing multiple projects in parallel, we accelerated efforts to make new customers loyal clients. As a result, orders that reflected new price setting increased. Through these efforts, we have managed to decisively raise the level of unit sales prices in the 1Q of FY2026 even compared with one and two years prior, and the measures we have implemented, including the development of loyal clients through our alliance strategy, generating multiple projects from a single client by gaining deeper insight into them, and expanding into other departments, have started to bear fruit.

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

Headwaters sees FY2026 as a period in which the AI market will continue to expand through AI agents. In response to this market environment, we will strive to significantly expand sales in order to further accelerate the current rate of growth, and have also positioned FY2026 as an important year for driving the development of Group-wide infrastructure through PMI.

- KPI: **Sales and Operating profit**
- Net sales: **Sales target of 8.56 billion yen** with year-on-year growth of 119.4%, exceeding the growth rate in FY2025.
- Recruiting: Necessary investments will be made for **a net increase of 100 employees** and a turnover rate of 10% or less.
- Operating profit: Operating profit is expected to **reach a record high**, while continuing to implement PMI and making a certain level of growth investments.
- Ordinary profit: **Both sales and profit are projected to increase**, despite the impact of valuation of derivative and amortization of goodwill.



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

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

## ■ Timely disclosure

- ✓ Notice of Change in Controlling Shareholder Other Than Parent Company
- ✓ Notice of Change in Subsidiary Due to an Absorption-type Merger with BBD Initiative
- ✓ Notice of Headwaters and BBD Initiative Merger Agreement
- ✓ Consolidated Financial Results for the Fiscal Year Ended December 31, 2025 (Under Japanese GAAP)
- ✓ Financial Supplementary Materials for the FY2025
- ✓ Notice of Difference Between Forecast and Actual Results, and Recording of Non-operating Expenses (Derivative Valuation Loss)
- ✓ Notice Regarding Change of Certified Public Accountants
- ✓ Result of Operations for FY2025
- ✓ FY2025 Annual General Meeting of Shareholders Electronic Provision of Other Items (Items Omitted from Paper Documents)
- ✓ Notice of the Annual General Meeting of Shareholders and Meeting Materials for FY2025
- ✓ Statutory Pre-Disclosure Documents (Merger and Absorption) (BBD Initiative)
- ✓ Securities Report — 21st Fiscal Period (January 1, 2025-December 31, 2025)
- ✓ Articles of Incorporation (as of January 1, 2026)
- ✓ Business Plan and Growth Potential
- ✓ Extraordinary Report

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

### ■ Achievements / Services

- ✓ Headwaters supports the development of a vocal command prototype for Remote Robotics Inc. that uses HWS Agent Camp
- ✓ Headwaters strengthens context engineering to accelerate the business implementation of AI agents for enterprise companies
- ✓ Headwaters supports the early development of Pioneer Ride Connect, a UX solution for motorcycles provided by Pioneer
- ✓ Headwaters announces SyncLect Data Intelligence, a solution that converts tacit knowledge into structured data that can be utilized by AI
- ✓ Headwaters launches an improvement cycle model supporting the production-level AI shift and development of AI agents for conventional SaaS implementations

### ■ Information

- ✓ Notice of Headwaters' appearance at the Growth IR Seminar for individual investors



# Net Sales by Service Category

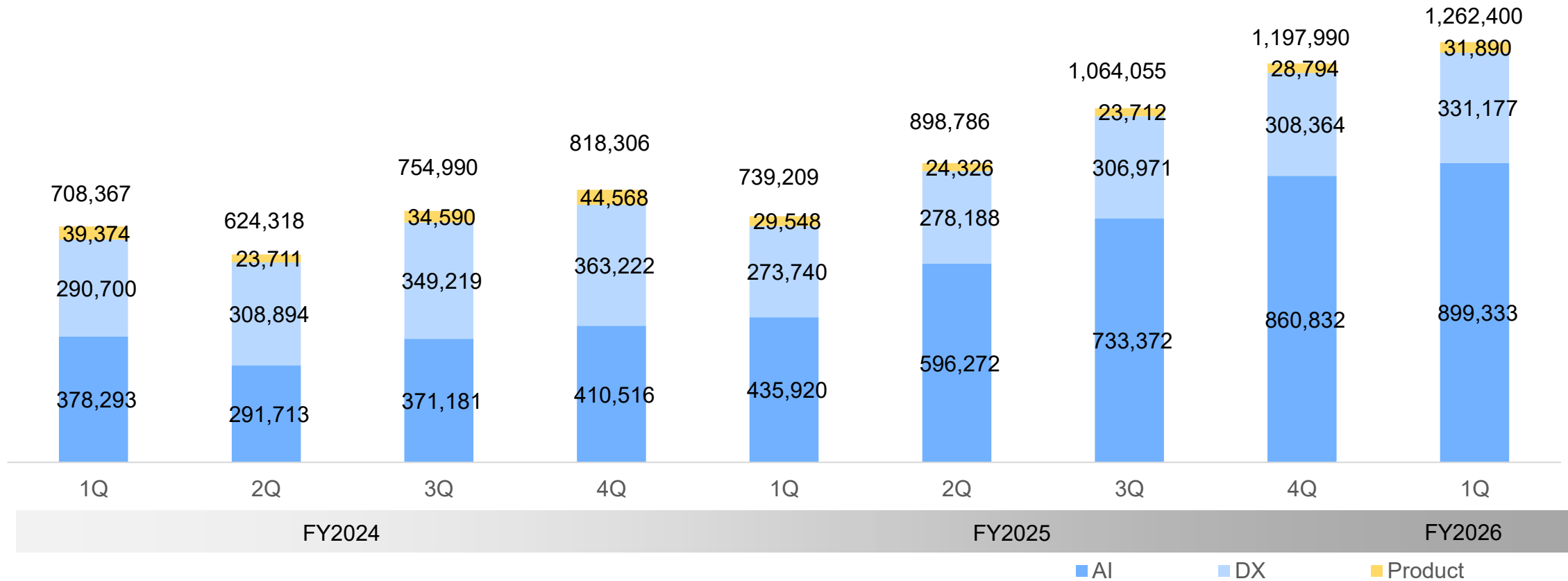
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(Thousand yen)

YoY: 170.8%

QoQ: 105.4%



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# Cost of Sales by Service Category

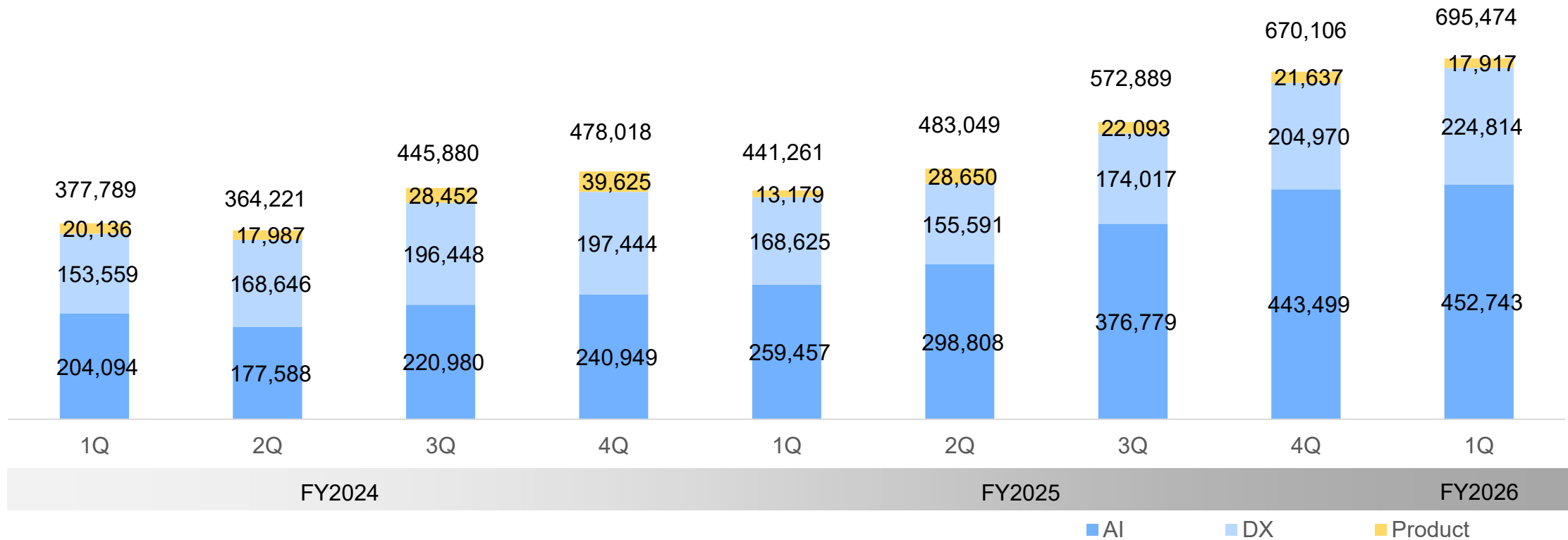
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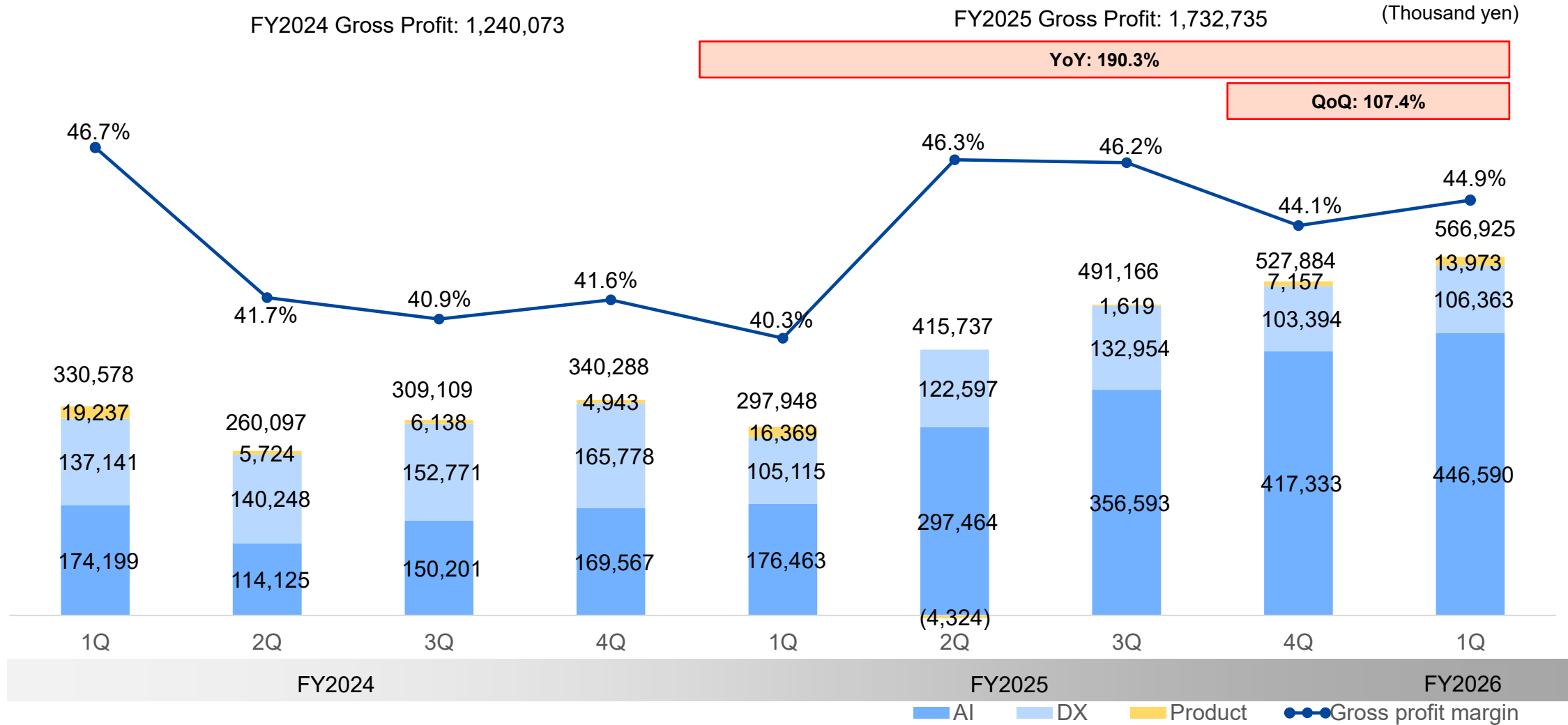
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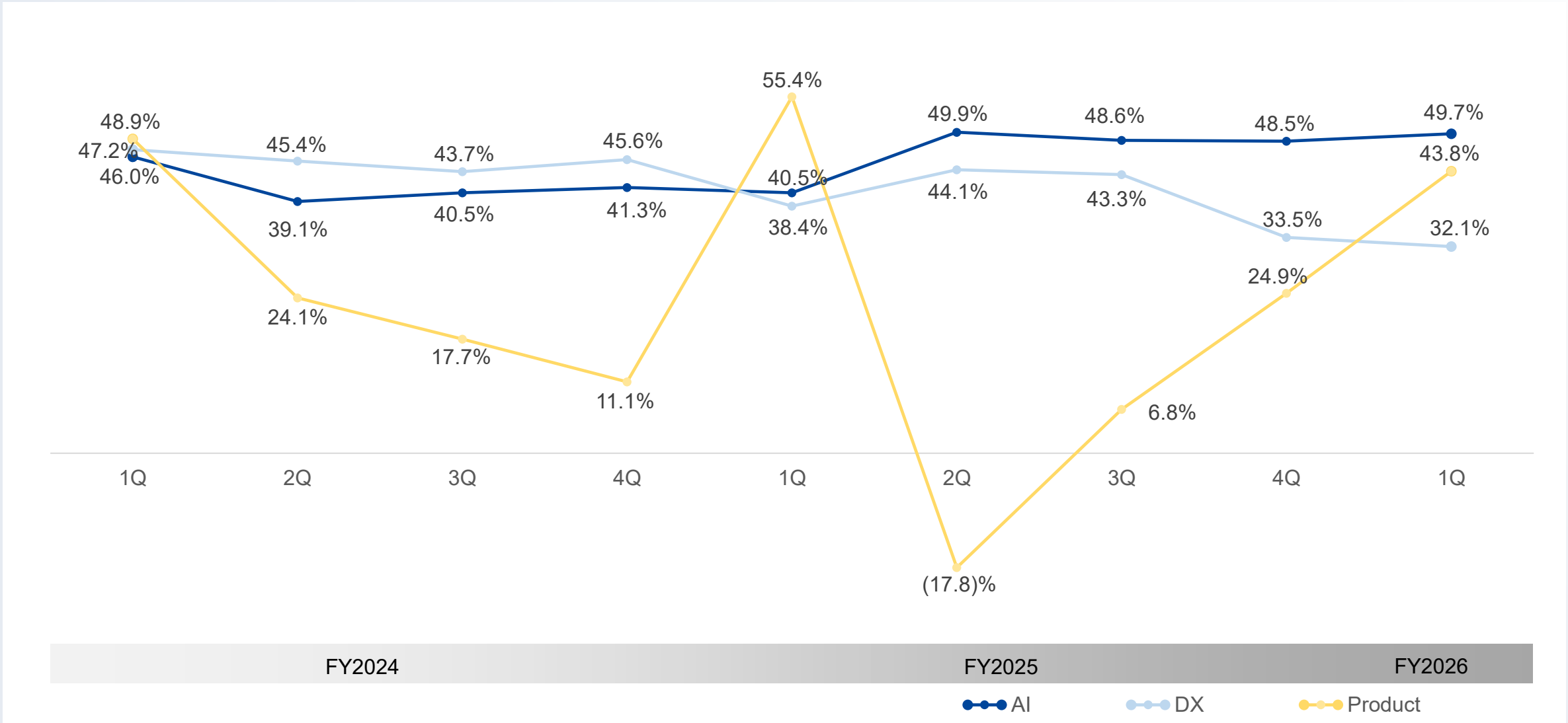


# Gross Profit by Service Category



\* As changes were made to segment categories from the FY2026, figures based on the former service categories (AI, DX and product) have been included for reference purposes.

# Gross Profit Margin by Service Category

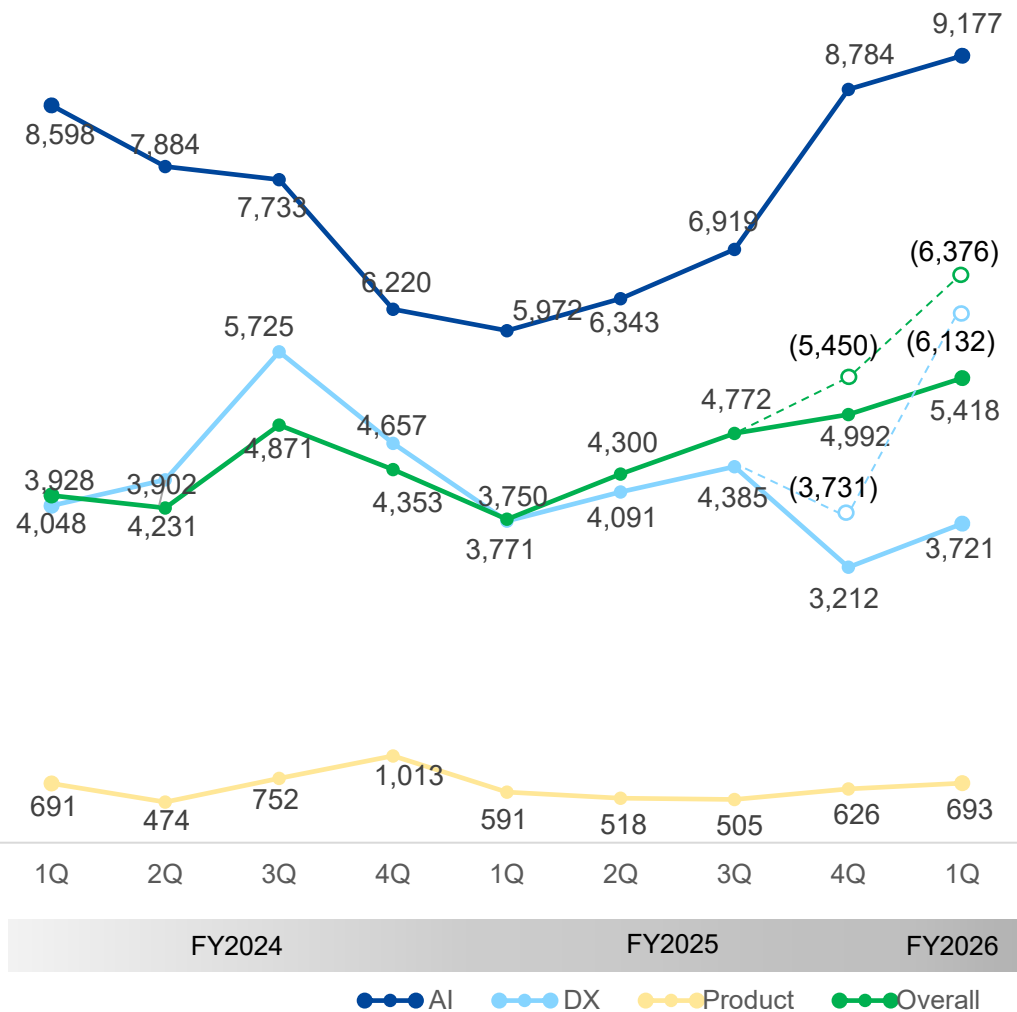


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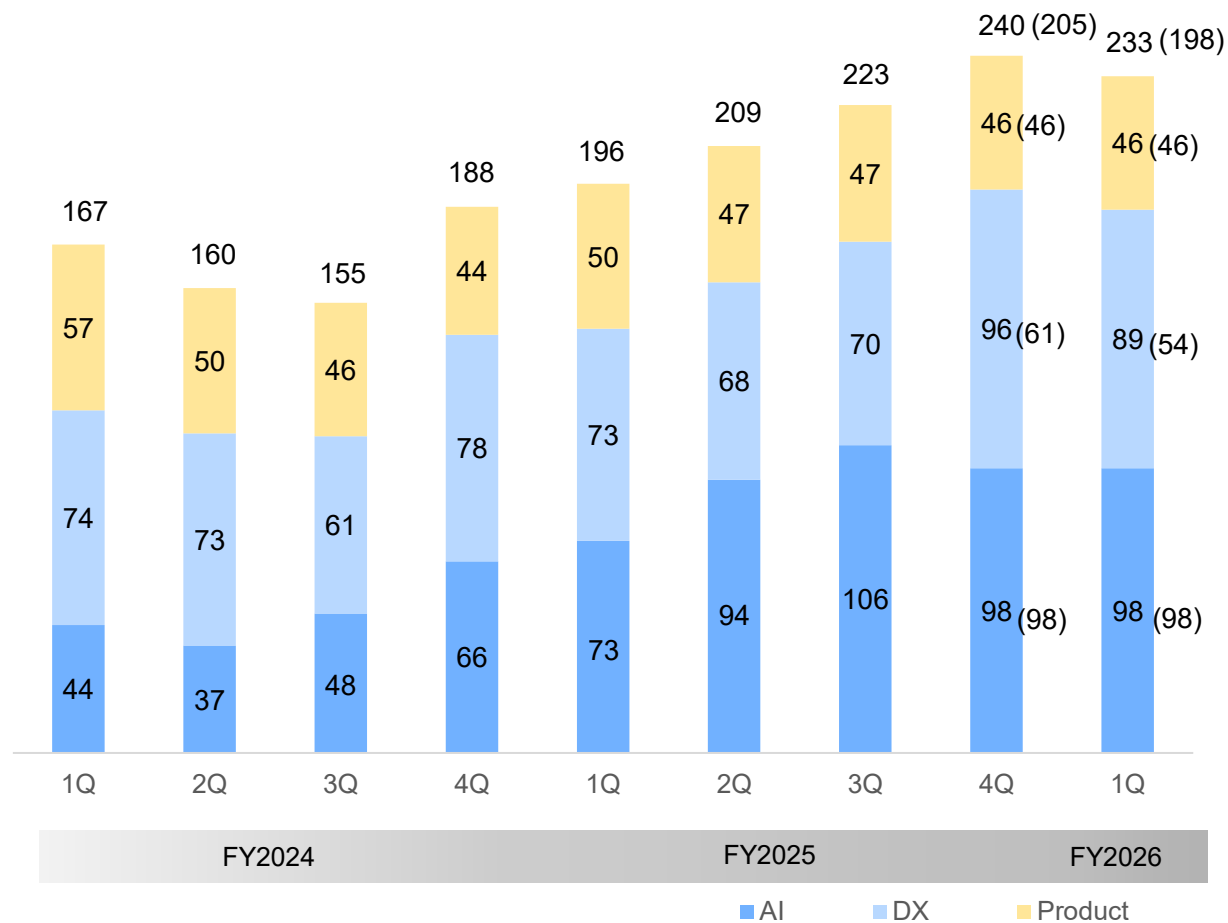


# Unit Sales Price and Number of Projects

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



### No. of Projects by Service Category



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

\* As changes were made to segment categories from the FY2026, figures based on the former service categories (AI, DX and product) have been included for reference purposes.



- 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 4Q and FY2026 1Q
  - **YoY**: A comparison between the cumulative figures of the previous fiscal year and the current fiscal year
    - Comparison between figures of FY2025 1Q-4Q and FY2026 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 FY2025 1Q and FY2026 1Q
- 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.