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Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 29, 2024 (Japanese GAAP)

October 13, 2023

Company name  MetaReal Corp. Listing Market TSE

Stock Code 6182 URL <https://www.metareal.jp>

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Scheduled date of filing of quarterly report: October 13, 2023 Scheduled date of commencement of dividend payment -

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results briefings: Yes

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 29, 2024 (March 1, 2023-August 31, 2023)

(1) Consolidated Results of Operation (Cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Q2 FY2/24	2,112	△2.3	390	61.5	419	55.3	232	111.9
Q2 FY2/23	2,161	5.4	241	177.2	270	150.1	109	100.2

(Note) Comprehensive income Q2 FY2/24 232Millions of yen (111.9%) Q2 FY2/23 109Millions of yen (100.2%)

	Net income per share	Diluted net income per share
	Yen	Yen
Q2 FY2/24	21.78	21.42
Q2 FY2/23	10.29	10.12

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
Q2 FY2/24	4,617	1,378	29.0
FY2/23	4,220	1,133	25.9

(Reference) Shareholders' equity Q2 FY2/24 1,337Millions of yen FY2/23 1,092Millions of yen

2. Dividend payment

	Annual dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2/23	-	0.00	-	0.00	0.00
FY2/24	-	0.00	-	-	-
FY2/24 (Forecast)	-	-	-	0.00	0.00

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

3. Consolidated Business Forecasts for the Fiscal Year Ending February 29, 2024 (March 1, 2023 to February 29, 2024)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	4,589	6.9	611	18.6	-	-	-	-	-

(Note) Revisions to the most recently announced business forecasts: None

◆ Consolidated Business Forecasts by Segment

(Percentages indicate year-on-year changes.)

	Net sales		Operating income	
	Millions of yen	%	Millions of yen	%
Full year				
AI business	3,152	8.3	599	△4.9
HT business	1,416	3.4	254	△4.6
Metaverse business	20	95.0	△280	-
Other corporate expenses	-	-	36	△15.2

(Note) 1. Since the second quarter of the consolidated fiscal year under review, the name of the reportable segment that had been the [MT business] has changed to the [AI business].

Previously, the segment centered on AI translation was called the [MT business]. However, as for the future corporate strategy and current situation, we are looking at the broader AI service, including [generative AI], and we have changed the name to the [AI business] to indicate the actual situation more appropriately.

This is only a name change, and we have not revised the numerical classification. [Metareal AI], which had been included in the MT business until the first quarter of the consolidated fiscal year under review, is also included in the [AI business].

2. Business results forecasts were made over a range in the fiscal year ended February 28, 2023. However, in light of factors such as accumulation of information from release of speech AI translation services and designation of COVID-19 as a class 5 infectious disease, we have decided to make spot business forecasts for the fiscal year ending February 29, 2024 instead. Although the above forecasts reflect the impact of Metareal AI (see "Notice Regarding the Commencement of New Businesses by Subsidiaries" released March 8, 2023), expenses in the AI business have been recorded in the same amount as the increase in net sales (430 million yen), which corresponds to 10% of net sales in the previous fiscal year (fiscal year ended February 28, 2023).

Although extraordinary expenditures through May 31, the launch date for Metareal AI, were limited, forecasts of expenses employ a conservative estimate equal to the increase in sales resulting from Metareal AI, as the rapid changes in industry trends and growth curves make estimates difficult, and as a result expenses incurred are equal to their impact on sales.

3. [Ordinary income], [Net income attributable to owners of the parent] and [Net income per share] in the consolidated business forecasts for the fiscal year ending February 29, 2024 are not disclosed at this time because of uncertainties in financial plans such as fund-raising in terms of both liabilities and equity associated with Metareal AI of new businesses. We plan to disclose specific figures promptly once we are able to make more accurate projections.

※ Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(Note) For details, please refer to [2.Quarterly Consolidated Financial Statements, (4) Notes on Quarterly Consolidated Financial Statements (Application of Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements)] on page 7 of the Appendix.

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

① Changes in accounting policies due to revisions of accounting standards, etc.: None

② Changes in accounting policies other than ①: None

③ Changes in accounting estimates: Yes

④ Restatements: None

(Note) For details, please refer to [2.Quarterly Consolidated Financial Statements, (4) Notes on Quarterly Consolidated Financial Statements (Changes in Accounting Estimates)] on page 7 of the Appendix.

(4) Number of shares outstanding (common stock)

① Number of shares outstanding at the end of the period (including treasury stock)

Q2 FY2/24	10,762,060 shares	FY2/23	10,688,460 shares
Q2 FY2/24	468 shares	FY2/23	468 shares
Q2 FY2/24	10,689,592 shares	Q2 FY2/23	10,679,770 shares

② Treasury shares at the end of the year

③ Average number of shares outstanding during the period (cumulative)

※ This quarterly financial report is not subject to the quarterly review by a certified public accountant or an auditing firm.

※ Explanations and other special notes concerning the appropriate use of business forecasts

(Cautionary Statement with Respect to Forward-Looking Statements)

Forecasts of future performance and other forward-looking statements in this document are based on information currently available to the Company and certain assumptions that the Company deems to be reasonable at the time this report was prepared. The Company makes no promises concerning their achievement. Actual results may differ significantly from the forecasts due to various factors. Please refer to "1. Qualitative Information on Consolidated Financial Results (4) Consolidated Business Forecasts" on page 3 of the Appendix for the assumptions underlying the forecasts and cautions concerning the use thereof.

(Method of Obtaining Financial Results Briefing Materials)

Supplementary materials for financial results were disclosed on the TDnet on the same date.

○ Table of Contents of the Appendix

1. Qualitative Information on Quarterly Financial Results.....	2
(1) Results of Operations	2
(2) Financial Position	2
(3) Cash Flows	3
(4) Consolidated Business Forecasts	3
2. Quarterly Consolidated Financial Statements and Major Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income	5
Quarterly Consolidated Statements of Income	
For the Six-month Period	5
Quarterly Consolidated Statements of Comprehensive Income	
For the Six-month Period	5
(3) Quarterly Consolidated Statement of Cash Flows	6
(4) Notes on Quarterly Consolidated Financial Statements	7
(Notes on Going Concern Assumptions)	7
(Notes on Significant Changes in Shareholders' Equity)	7
(Application of Accounting Procedures Specific to Preparation of the Quarterly Consolidated Financial Statements)	7
(Changes in Accounting Estimates)	7
(Additional Information)	7
(Notes to the Quarterly Consolidated Statements of Income)	7
(Segment Information)	8
(Per share Information)	10
(Significant Subsequent Events)	10

1. Qualitative Information on Quarterly Financial Results

(1) Results of Operations

During the second quarter of the consolidated fiscal year under review (March 1 to August 31, 2023), orders received, sales, and operating income in the AI business hit record highs. In the HT business segment, income compared to the same period of the previous fiscal year decreased, but the amount of loss incurred in the Metaverse business decreased.

As a result, in the cumulative second quarter of the consolidated fiscal year under review the Group recorded net sales of 2,112,250 thousand yen (down 2.3% year on year), operating income of 390,578 thousand yen (up 61.5% year on year), ordinary income of 419,871 thousand yen (up 55.3% year on year), and profit attributable to owners of the parent of 232,859 thousand yen (up 111.9% year on year).

Excluding the Metaverse business, sales were 2,110,110 thousand yen (down 2.2% year on year) and operating income was 511,193 thousand yen (up 9.3% year on year).

The performance of each business segment is as follows:

Since the second quarter of the consolidated fiscal year under review, the name of the reportable segment that had been the [MT business] has changed to the [AI business]. This change had no impact on segment information.

① AI business

As for the AI business, activities for orders received were firm, at 1,677,545 thousand yen (up 15.2% year on year). Sales were 1,554,617 thousand yen (up 5.7% year on year) due to the impact of consigned projects etc., and segment income was 443,116 thousand yen (up 36.5% year on year), including the impact of upfront spending on the new [Metareal AI] business. As for the [Metareal AI] project, which was developed and provided in this fiscal year as a short- to medium-term growth measure, we have begun various proposals and business operations utilizing generative AI, mainly for major customers, with the aim of contributing to results at an early stage.

② HT business

Sales in the HT business, were 555,493 thousand yen (down 19.1% year on year), and segment income was 71,083 thousand yen (down 48.4% year on year).

③ Metaverse business

Mid-to-short term growth measures were shifted to the [Metareal AI] project. The Metaverse business reduced investment from a long-term perspective by 10±5 years. As a result, sales were 2,139 thousand yen (down 49.7% year on year), and segment loss was 120,614 thousand yen (segment loss of 225,995 thousand yen in the same period of the previous fiscal year).

(2) Financial Position

(Assets)

Current assets increased by 561,990 thousand yen from the end of the previous consolidated fiscal year to 3,535,266 thousand yen at the end of the second quarter of the consolidated fiscal year under review. This was due mainly to an increase of 379,130 thousand yen in cash and deposits, an increase of 98,640 thousand yen in notes, accounts receivable and contract assets, and a decrease of 12,950 thousand yen in the allowance for doubtful accounts. Non-current assets decreased by 165,267 thousand yen from the end of the previous fiscal year to 1,082,165 thousand yen. This was due mainly to a decrease of 28,268 thousand yen in property, plant, and equipment and a decrease of 120,019 thousand yen in intangible assets.

(Liabilities)

Current liabilities increased by 190,454 thousand yen from the end of the previous consolidated fiscal year to 2,179,946 thousand yen at the end of the second quarter of the consolidated fiscal year under review. This was due mainly to an increase of 169,980 thousand yen in income taxes payable, an increase of 115,071 thousand yen in advances received, and a decrease of 100,000 thousand yen in short-term loans payable. Non-current liabilities decreased by 38,588 thousand yen from the end of the previous fiscal year to 1,059,310 thousand yen. This was due mainly to a decrease of 77,990 thousand yen in long-term debt and an increase of 53,000 thousand yen in bonds.

(Net assets)

Net assets increased by 244,855 thousand yen from the end of the previous consolidated fiscal year to 1,378,174 thousand yen at the end of the second quarter of the consolidated fiscal year under review. This was due mainly to an increase of 232,859 thousand yen in retained earnings as a result of recording profit attributable to owners of the parent.

(3) Cash Flows

Cash and cash equivalents at the end of the second quarter of the consolidated fiscal year under review increased by 378,827 thousand yen from the end of the previous consolidated fiscal year to 2,920,855 thousand yen.

The status of each type of cash flow and related factors in the second quarter of the consolidated fiscal year under review are reviewed below.

(Cash flows from operating activities)

Net cash provided by operating activities was 501,785 thousand yen (compared to 147,349 thousand yen provided in the same period of the previous fiscal year).

This was due mainly to the recording of income before income taxes of 417,877 thousand yen, depreciation and amortization of 195,719 thousand yen, income taxes paid of 167,721 thousand yen, an increase in advances received of 115,071 thousand yen, and an increase in notes, accounts receivable and contract assets of 59,118 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities was 52,606 thousand yen (compared to 84,731 thousand yen used in the same period of the previous fiscal year).

This was due mainly to the purchase of 50,008 thousand yen in intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities was 69,419 thousand yen (compared to 44,677 thousand yen used in the same period of the previous fiscal year).

This was due mainly to repayments of long-term debt of 197,990 thousand yen and proceeds from long-term debt of 150,000 thousand yen.

(4) Consolidated Business Forecasts

Our two management themes for the future are:

① [Metaverser] concept in the Metaverse business and its method [Metaverse × AI]

As a long-term growth strategy aiming to achieve results in five years or longer, the Metaverse business will focus on the Metaverser initiative and Metaverse × AI as a means of implementing it.

② AI business including [Metareal AI] project

We will continue to aim for stable growth in the AI business, which provides services such as [T-4OO] [T-3MT] for AI document translation and [Onyaku] for speech AI translation.

The [Metareal AI] project, which was launched in this fiscal year, will provide platform development and application development using various AI technologies such as generative AI such as ChatGPT, original LLM development, and consigned development in accordance with the requests of individual companies. We will promote the development of a one-stop AI business environment in which Japanese companies can respond to the rapid global trend toward AI.

We aim to grow by 5% to 20% through the AI business, including the [Metareal AI] project.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (February 28, 2023)	Second quarter of the consolidated fiscal year under review (August 31, 2023)
Assets		
Current assets		
Cash and deposits	2,523,695	2,902,826
Notes, accounts receivable and contract assets	280,313	378,954
Inventories	16,075	23,517
Other	195,242	259,069
Allowance for doubtful accounts	△42,051	△29,101
Total current assets	2,973,276	3,535,266
Non-current assets		
Property, plant and equipment	117,936	89,668
Intangible assets		
Goodwill	6,709	3,354
Software	647,051	524,571
Software in progress	572	9,667
Other	16,752	13,473
Total intangible assets	671,086	551,067
Investments and other assets		
Investment securities	86,071	86,071
Other	372,338	355,358
Total investments and other assets	458,409	441,429
Total non-current assets	1,247,433	1,082,165
Total assets	4,220,709	4,617,432
Liabilities		
Current liabilities		
Notes and accounts payable-trade	74,270	68,462
Short-term borrowings	100,000	-
Current portion of long-term loans payable	385,980	415,980
Current portion of corporate bonds	134,000	164,000
Income taxes payable	28,913	198,893
Provision for bonuses	44,860	42,143
Advances received	859,439	974,511
Other	362,028	315,955
Total current liabilities	1,989,491	2,179,946
Non-current liabilities		
Corporate bonds	388,000	441,000
Long-term debt	669,550	591,560
Other	40,349	26,750
Total non-current liabilities	1,097,899	1,059,310
Total liabilities	3,087,391	3,239,257
Net assets		
Shareholders' equity		
Common stock	786,021	792,020
Capital surplus	1,759,968	1,765,966
Retained earnings	△1,452,866	△1,220,007
Treasury stock	△951	△951
Total shareholders' equity	1,092,171	1,337,027
Share subscription rights	41,146	41,146
Total net assets	1,133,318	1,378,174
Total liabilities and net assets	4,220,709	4,617,432

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the Six-month Period)

(Thousands of yen)

	Previous second quarter (From March 1, 2022 to August 31, 2022)	Current second quarter (From March 1, 2023 to August 31, 2023)
Net sales	2,161,415	2,112,250
Cost of sales	782,451	658,767
Gross profit	1,378,963	1,453,483
Selling, general and administrative expenses		
Salaries, allowances and bonuses	396,581	378,257
Research and development expenses	129,315	73,063
Provision for bonuses	2,113	147
Retirement benefit expenses	3,564	3,656
Other	605,585	607,780
Total selling, general and administrative expenses	1,137,159	1,062,904
Operating income	241,803	390,578
Non-operating income		
Interest income	32	35
Foreign exchange gain	886	1,347
Subsidy income	13,049	16
Reversal of allowance for doubtful accounts	34,042	46,455
Other	989	1,833
Total non-operating income	48,999	49,688
Non-operating expenses		
Interest expenses	6,959	5,322
Share of loss of investments accounted for using equity method	5,232	10,829
Bond issuance expenses	6,624	3,088
Other	1,601	1,154
Total non-operating expenses	20,417	20,395
Ordinary income	270,386	419,871
Special income		
Income on sales of non-current assets	-	831
Total special income	-	831
Special loss		
Loss on sales and retirement of noncurrent assets	2,435	-
Impairment loss	-	2,826
Loss on valuation of investment securities	42,054	-
Total special loss	44,489	2,826
Income before income taxes	225,896	417,877
Income taxes	116,025	185,018
Net income	109,871	232,859
Net income attributable to owners of parent	109,871	232,859

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

(Thousands of yen)

	Previous second quarter (From March 1, 2022 to August 31, 2022)	Current second quarter (From March 1, 2023 to August 31, 2023)
Net income	109,871	232,859
Comprehensive income	109,871	232,859
Comprehensive income (loss) attributable to:		
Owners of parent	109,871	232,859
Non-controlling interests	-	-

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Previous second quarter (From March 1, 2022 to August 31, 2022)	Current second quarter (From March 1, 2023 to August 31, 2023)
Cash flows from operating activities		
Income before income taxes	225,896	417,877
Depreciation	240,639	195,719
Amortization of goodwill	3,893	3,354
Impairment loss	-	2,826
Increase or decrease in allowance for doubtful accounts (Δ indicates decrease)	Δ 38,484	Δ 54,601
Increase or decrease in accrued bonuses (Δ indicates decrease)	Δ 2,160	Δ 2,717
Increase in provision for surcharges (Δ indicates decrease)	Δ 283,090	-
Interest and dividend income	Δ 32	Δ 35
Loss on valuation of investment securities (Δ indicates gain)	42,054	-
Loss or gain on equity method investments (Δ indicates gain)	5,232	10,829
Loss on sales and retirement of noncurrent assets (Δ indicates gain)	2,435	Δ 831
Subsidy income	Δ 13,049	Δ 16
Interest expenses	6,959	5,322
Bond issuance expenses	6,624	3,088
Increase or decrease in advances received (Δ indicates decrease)	1,027	115,071
Increase or decrease in notes and accounts receivable and contract assets (Δ indicates increase)	132,737	Δ 59,118
Increase or decrease in inventories (Δ indicates increase)	2,493	Δ 7,441
Increase or decrease in trade payables (Δ indicates decrease)	2,001	Δ 5,807
Increase or decrease in accrued expenses (Δ indicates decrease)	Δ 40,126	6,234
Increase or decrease in accrued consumption taxes	Δ 48,972	2,265
Other	Δ 17,817	Δ 16,147
Sub-total	228,262	615,872
Interest and dividends received	32	35
Subsidy income	13,049	16
Interest paid	Δ 6,959	Δ 5,322
Income taxes paid	Δ 97,185	Δ 167,721
Income taxes refund	10,149	58,905
Cash flows from operating activities	147,349	501,785
Cash flows from investing activities		
Payments for property, plant and equipment	Δ 929	Δ 3,860
Proceeds from sale of property, plant and equipment	757	831
Payments for intangible assets	Δ 74,492	Δ 50,008
Payment for loans receivable	Δ 10,850	Δ 700
Proceeds from loans receivable	782	1,130
Cash flows from investing activities	Δ 84,731	Δ 52,606
Cash flows from financing activities		
Increase in short-term borrowings (Δ indicates decrease)	Δ 100,000	Δ 100,000
Proceeds from issuance of bonds	293,375	146,911
Redemption of bonds	Δ 37,000	Δ 67,000
Proceeds from long-term debt	-	150,000
Repayment of long-term debt	Δ 192,990	Δ 197,990
Repayment of lease obligations	Δ 13,083	Δ 13,338
Proceeds from issuance of common stock upon exercise of share subscription rights	5,020	11,996
Cash flows from financing activities	Δ 44,677	Δ 69,419
Effect of exchange rate change on cash and cash equivalents	Δ 2,031	Δ 931
Net increase or decrease in cash and cash equivalents (Δ indicates decrease)	15,908	378,827
Cash and cash equivalents at beginning of the year	2,410,143	2,542,027
Cash and cash equivalents at the end of the quarter	2,426,052	2,920,855

(4) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Application of Accounting Procedures Specific to Preparation of the Quarterly Consolidated Financial Statements)

Income taxes are calculated by estimating a reasonable effective tax rate after tax-effect accounting for the consolidated fiscal year including the second quarter under review and multiplying it by the quarterly income before taxes.

However, if the calculation of tax expenses using the estimated effective tax rate yields a highly unreasonable result, then the statutory tax rate is used.

(Changes in Accounting Estimates)

(Changes in Estimates to Record Consigned Development Revenue)

We record revenue on consigned development based on the nature of each consigned development. If the entire consigned project is long-term and although the progress made in satisfying performance obligations cannot be reasonably estimated, recovering the costs incurred in satisfying the performance obligations is expected under [ASBJ Statement No. 29, Paragraph 45 of the Accounting Standard for Revenue Recognition] on the project with complex contractual relationship, we conduct treatment based on the cost recovery standard.

The application of the same paragraph is only under circumstances where it is difficult to reasonably estimate the progress made in satisfying performance obligations. For cases in which the progress of the project itself and the progress made in satisfying performance obligations can be reasonably estimated due to the establishment of various contract conditions has been changed, and the input method has been changed from the treatment under the cost recovery method to the input method based on total cost, and the difference between the cost and the previous estimate has been recorded in net sales.

As a result, gross profit, operating income, ordinary income, and income before income taxes for the second quarter of the consolidated fiscal year under review have each increased by 120,725 thousand yen compared to the previous method.

The impact of this change on segment information is described under [Segment Information].

(Additional Information)

(Handling of Accounting and Disclosure for Application of the Group Comprehensive Accounting System)

We, as well as some of our domestic consolidated subsidiaries, have shifted from the consolidated tax payment system to the group-wide tax system since the first quarter of the consolidated fiscal year under review. Accordingly, accounting and disclosure of income taxes, local income taxes, and tax-effect accounting are handled in accordance with [Accounting and Disclosure for Application of the Group Comprehensive Accounting System] (PITF No. 42, August 12, 2021. Hereinafter [Practical Issues Task Force No. 42]). In addition, in accordance with Paragraph 32(1) of the Practical Issues Task Force No. 42, we do not deem the impact of changes in accounting policies due to the application of Practical Issues Task Force No. 42.

(Notes to the Quarterly Consolidated Statements of Income)

(1) Impairment loss

Previous second quarter (from March 1, 2022 to August 31, 2022)

Not applicable.

Current second quarter (from March 1, 2023 to August 31, 2023)

This information is omitted because it is not material.

(2) Loss on valuation of investment securities

Previous second quarter (from March 1, 2022 to August 31, 2022)

It is our judgment that the real value of investment securities we hold of VoiceApp Co., Ltd., has declined significantly. Accordingly, we have recorded 42,054 thousand yen in losses on valuation of investment securities as extraordinary losses.

Current second quarter (from March 1, 2023 to August 31, 2023)

Not applicable.

(Segment Information)

[Segment Information]

I Previous second quarter (from March 1, 2022 to August 31, 2022)

Information on net sales and income or loss by reportable segment and breakdown of income

(Thousands of yen)

	Reportable Segments				Adjustment Note 1:	Amounts on the consolidated financial statements Note 2
	AI business	HT business	Metaverse business	Total		
By type of goods or services						
Machine translation	1,432,777	-	-	1,432,777	-	1,432,777
Human translation	14,814	686,689	-	701,504	-	701,504
Metaverse	-	-	4,251	4,251	-	4,251
Consigned development	22,882	-	-	22,882	-	22,882
Revenue from contracts with customers	1,470,474	686,689	4,251	2,161,415	-	2,161,415
Revenue recognition by period						
Goods or services that are transferred at one time	124,443	619,131	4,251	747,826	-	747,826
Goods or services that are transferred over a period of time	1,346,030	67,558	-	1,413,589	-	1,413,589
Revenue from contracts with customers	1,470,474	686,689	4,251	2,161,415	-	2,161,415
Net sales to unaffiliated customers	1,470,474	686,689	4,251	2,161,415	-	2,161,415
Intersegment sales or transfer	3,023	21,621	-	24,644	△24,644	-
Total	1,473,497	708,311	4,251	2,186,060	△24,644	2,161,415
Segment income or loss (△)	324,524	137,879	△225,995	236,409	5,394	241,803

(Note) 1. Adjustments to segment income or loss (△) of 5,394 thousand yen include elimination of intersegment transactions and corporate expenses. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.

2. Segment income or loss (△) is adjusted with operating income in the quarterly consolidated statements of income.

II Current second quarter (from March 1, 2023 to August 31, 2023)

1. Information on net sales and income or loss by reportable segment and breakdown of income

(Thousands of yen)

	Reportable Segments				Adjustment Note 1:	Amounts on the consolidated financial statements Note 2
	AI business (Note 3,4)	HT business	Metaverse business	Total		
By type of goods or services						
Machine translation	1,386,851	16,281	-	1,403,133	-	1,403,133
Human translation	26,547	539,211	-	565,759	-	565,759
Metaverse	-	-	2,139	2,139	-	2,139
Consigned development	141,218	-	-	141,218	-	141,218
Revenue from contracts with customers	1,554,617	555,493	2,139	2,112,250	-	2,112,250
Revenue recognition by period						
Goods or services that are transferred at one time	124,658	485,654	1,111	611,424	-	611,424
Goods or services that are transferred over a period of time	1,429,958	69,838	1,028	1,500,825	-	1,500,825
Revenue from contracts with customers	1,554,617	555,493	2,139	2,112,250	-	2,112,250
Net sales to unaffiliated customers	1,554,617	555,493	2,139	2,112,250	-	2,112,250
Intersegment sales or transfer	3,209	24,839	39	28,088	△28,088	-
Total	1,557,827	580,332	2,178	2,140,338	△28,088	2,112,250
Segment income or loss (△)	443,116	71,083	△120,614	393,584	△3,005	390,578

- (Note) 1. Adjustments to segment income or loss (△) △ of 3,005 thousand yen includes elimination of intersegment transactions and corporate expenses. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.
2. Segment income or loss (△) is adjusted with operating income in the quarterly consolidated statements of income.
3. Sales related to generative AI are included in [Machine translation] for platform-type sales, and sales related to consigned development are included in [Consigned development].
4. As described under [Changes in Accounting Estimates], we record revenue on consigned development based on the nature of each consigned development. If the entire consigned project is long-term and although the progress made in satisfying performance obligations cannot be reasonably estimated, recovering the costs incurred in satisfying the performance obligations is expected under [ASBJ Statement No. 29, Paragraph 45 of the Accounting Standard for Revenue Recognition] on the project with complex contractual relationship, we conduct treatment based on the cost recovery standard.

The application of the same paragraph is only under circumstances where it is difficult to reasonably estimate the progress made in satisfying performance obligations. For cases in which the progress of the project itself and the progress made in satisfying performance obligations can be reasonably estimated due to the establishment of various contract conditions has been changed, and the input method has been changed from the treatment under the cost recovery method to the input method based on total cost, and the difference between the cost and the previous estimate has been recorded in net sales.

As a result, gross profit, operating income, ordinary income, and income before income taxes for the second quarter of the consolidated fiscal year under review have each increased by 120,725 thousand yen compared to the previous method.

2. Information on impairment loss on noncurrent assets or goodwill by reportable segment

(Significant impairment loss on noncurrent assets)

This information is omitted because it is not material.

3. Changes in reportable segments

(Change of Segment Name)

Since the second quarter of the consolidated fiscal year under review, the name of the reportable segment that had been the [MT business] has changed to the [AI business]. This change was made to the segment name only. There was no impact on segment information. Segment information for the second quarter of the previous consolidated fiscal year also is presented under the new name.

(Per share Information)

Net income per share and the basis for calculating it, and diluted net income per share and the basis for calculating it are as follows.

	Previous second quarter (From March 1, 2022 to August 31, 2022)	Current second quarter (From March 1, 2023 to August 31, 2023)
(1) Net income per share	10.29 yen	21.78 yen
(Basis of calculation)		
Net income attributable to owners of parent (thousands of yen)	109,871	232,859
Amount not attributable to common shareholders (thousands of yen)	-	-
Net income attributable to owners of parent related to common stock (thousands of yen)	109,871	232,859
Average number of shares of common stock outstanding during the period (shares)	10,679,770	10,689,592
(2) Diluted net income per share	10.12 yen	21.42 yen
(Basis of calculation)		
Adjustment to net income attributable to owners of parent (thousands of yen)	-	-
Increase in number of common shares (shares)	177,336	179,505
Outline of potential shares that had not been included in the calculation of diluted net income per share because they had no dilutive effect, and that had changed significantly since the end of the previous fiscal year	-	-

(Significant Subsequent Events)

Not applicable.