

Financial Results Briefing for Q2 FY2023

May 12, 2023



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Financial Results Overview for Q2 FY2023

I would now like to give you an overview of the results for the second quarter of the fiscal year ending September 2023.

Financial highlight

1 Operating income declined and was below the forecast. Main cause: Loss-making projects in DX support business for major companies.

- Net sales: ¥13,613 million (+¥638 million, YoY, Performance forecast comparison: +¥913 million)
- Operating income: ¥(18) million (-¥617 million, YoY, Performance forecast comparison: -¥218 million)
- Ordinary income: ¥187 million (-¥105 million, YoY, Performance forecast comparison: +¥187 million)

2 The full-year forecasts are revised. (only operating income is revised downward)

- Net sales: ¥26,800 million (Compared to the previous forecast +¥800)
- Operating income: ¥200 million (Compared to the previous forecast -¥600)
- Ordinary income: ¥400 million (Previous forecast unchanged)

3 Healthcare business and School DX business: Results improved as planned. Other business: Loss-making projects in the DX support business for major companies continued being dealt with the aim of winding them down in the course of this fiscal year.

Here are the financial highlights.

First half operating income declined and was below the forecast. This decline is mainly attributable to loss-making projects in the DX support business for major companies.

Consolidated net sales increased 4.9% year on year to 13,613 million yen, and the operating loss was 18 million yen. Loss attributable to owners of parent came to 326 million yen.

In view of the variance between the first-half forecast and results as well as recent conditions, we are revising our full-year forecast. We are raising our net sales forecast by 800 million yen from the previous forecast, to 26,800 million yen and lowering our operating income forecast by 600 million yen from the previous forecast, to 200 million yen. Our ordinary income forecast remains the same as before.

Our main achievements in the first half are as follows.

In the healthcare business and the school DX business, results improved as planned.

In other business, we are still dealing with loss-making projects in part of the DX support business for major companies, looking to resolve this issue over the course of the current fiscal year.

I will be discussing our initiatives in each area in greater detail, later on.

Consolidated P/L

Net sales : increased

Operating income : decreased

(Unit : Mil yen)

	FY2022 Q2	FY2023 Q2	YoY		
			Amount	Percentage	
Net sales	12,975	13,613	+638	+4.9%	Q1: Posting of spot sales of the video-streaming service
Cost of sales (ratio)	3,814 29.4%	4,481 32.9%	+666	+17.5%	Posting of spot cost of sales of the video-streaming service
Gross profit (ratio)	9,160 70.6%	9,132 67.1%	(28)	(0.3)%	
SG&A (ratio)	8,561 66.0%	9,151 67.2%	+589	+6.9%	Increase in outsourcing expenses. (School DX business) Increase in advertising expenses (AdGuard)
Operating income (ratio)	599 4.6%	(18) -%	(617)	-%	
Ordinary income (ratio)	292 2.3%	187 1.4%	(105)	(36.1)%	Q1: Posting of income taxes associated with the transfer of shares between Group companies
Profit attributable to owners of parent (ratio)	123 1.0%	(326) -%	(449)	-%	

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I would now like to discuss the consolidated P/L.

Net sales increased 4.9% year on year to 13,613 million yen.

In the content business, while the number of paying subscribers has decreased, net sales increased overall due to strong spot sales from video distribution in the subsidiary Video Market, as well as the successful performance of original comics and security-related applications. Additionally, the healthcare business and school DX business have been progressing well.

Gross profit remained stable year on year at 9,132 million yen, primarily due to an increase in the cost of sales of some DX support businesses for companies.

Operating income posted losses of 18 million yen, primarily due to an increase in selling and administrative expenses attributed to the rise in advertising and promotion expenses as well as outsourcing costs.

Ordinary income stood at 187 million yen due to the recording of equity-method investment profit of 174 million yen.

Loss attributable to owners of parent came to 326 million yen, reflecting the posting of corporate taxes associated with the transfer of shares between Group companies in the healthcare business in October 2022, which offset the recording of a gain on change in equity of 139 million yen under extraordinary income.

Consolidated SG&A :

Advertising expenses and outsourcing expenses : increased

(Unit : Mil yen)

	FY2022 Q2	FY2023 Q2	YoY	
			Amount	Percentage
SG&A	8,561	9,151	+589	+6.9%
Advertising expenses	758	1,016	+258	+34.1%
Personnel expenses	3,835	3,947	+111	+2.9%
Commission fee	1,538	1,491	(46)	(3.0)%
Subcontract expenses	885	1,041	+156	+17.6%
Depreciation	633	591	(42)	(6.6)%
Other	909	1,062	+153	+16.8%

• Increase in sales promotion costs for AdGuard

• Stricter requirements for the posting of software assets (School DX business)

The breakdown of consolidated SG&A is as shown on page 4.

(Reference) Income tax-related settlement of gains on sale of shares in Boshimo Ltd.

Non-consolidated settlement

Contributing to increase of ¥1,096 million in profit

Gain on sale of shares of subsidiaries: ¥1,579 million
Income taxes: ¥483 million

Consolidated settlement

Contributing to decrease of ¥483 million in profit

Gain on transfer of shares: ¥0 million (Consolidated elimination)
Income taxes: ¥483 million (Deferred income taxes will not be posted)

Details of the posting of corporate taxes, which is the main reason for the decline in profit, are as shown on the slide.

During the first quarter, we posted income taxes associated with the transfer of shares between Group companies of 483 million yen.

Difference between earnings forecast and the actual for Q2

Net sales : Posting of spot sales of the video-streaming service.

Operating income : Measures to deal with loss-making projects in DX support business (increase in cost of sales), decrease in orders received in AI business.

Ordinary income : Recording of equity method investment income.

Profit attributable to owners of parent : Recording of gain on change in equity (extraordinary income) .

(Unit : Mil yen)

	FY2023 H1		Difference
	The latest earnings forecast	Actual	Amount
Net sales	12,700	13,613	+ 913
Operating income	200	(18)	(218)
Ordinary income	0	187	+187
Profit (loss) attributable to owners of parent	(740)	(326)	+414

I will now explain the reasons for the variance between the first-half forecast and results.

Net sales exceeded the initial plan mainly due to the strong video sales of subsidiary Video Market Corporation.

However, operating income was lower than forecast primarily reflecting an increase in the cost of sales as a result of the ongoing response to loss-making projects in the DX support business for major corporate customers and sluggish growth of orders in the AI business of subsidiary Automagi Inc.

Ordinary income was higher than the initial forecast as a result of an equity-method investment profit posted due to the improved results of associated companies in contrast to the initially expected equity-method investment loss.

Profit attributable to owners of parent improved from the initial forecast mainly due to the recording of a gain on change in equity under extraordinary income in addition to higher-than-expected ordinary income.

Revision of earnings forecast of FY2023

Net sales : Posting of spot sales of the video-streaming service.

Operating income : Measures to deal with loss-making projects in DX support business (increase in cost of sales), decrease in orders received in AI business.

Ordinary income : Recording of equity method investment income.

Profit attributable to owners of parent : Recording of gain on change in equity (extraordinary income) .

(Unit : Mil yen)

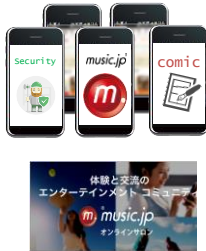
	FY2023		Difference
	The latest earnings forecast	Forecast this time	Amount
Net sales	26,000	26,800	+800
Operating income	800	200	(600)
Ordinary income	400	400	-
Profit (loss) attributable to owners of parent	(600)	(400)	+200

In light of first-half results and in view of the higher cost of sales in the DX support business for corporate customers and continued slow growth in orders for AI business in the second half, in our full-year consolidated business results forecast, we have raised our net sales forecast and lowered our operating income forecast, left our ordinary income forecast unchanged and raised profit attributable to owners of parent in their forecast.

Performance by segment

Content Business

- Content service (Entertainment & Life content)
- Original comics service



Healthcare Business

- Healthcare service for women
- Childcare DX service
- Cloud drug record service
- Online consultation service, etc

LunaLuna

ママ子モ



CHARADA 電子薬歴
Solamichi

School DX Business

- School DX service

BLEND



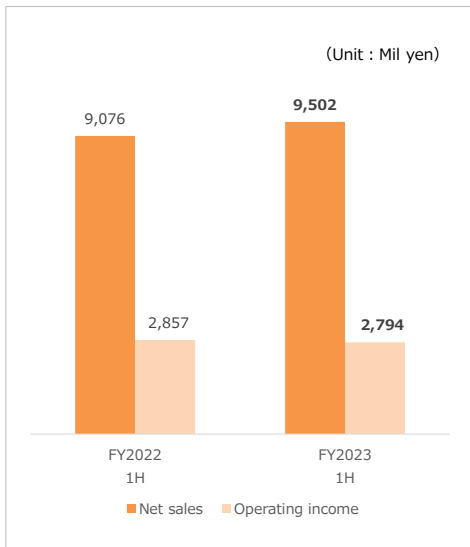
Other Business

- AI business
- DX support business for companies
- Solution service for corporate



Next, I would like to explain the performance by segment.

Content business: Net sales and operating income



**Net sales increased,
and the profit slightly
decreased**

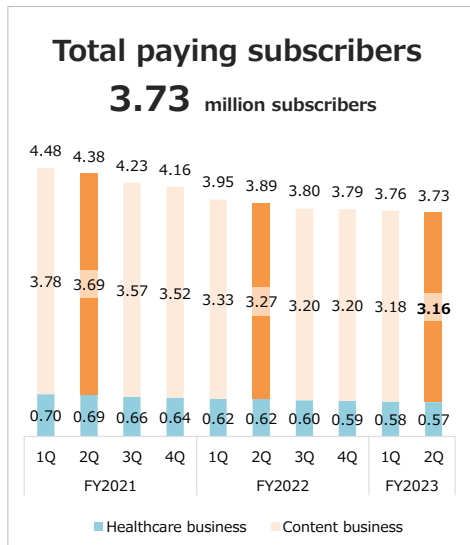
- + : Posting of spot sales of the video-streaming service (Q1)
- : The number of paying subscribers decreased
Advertising expenses increased

In the content business, net sales increased and operating income slightly declined.

Net sales increased 4.7% year on year, to 9,502 million yen due to the posting of spot sales of video distribution.

Operating income decreased 2.2% year on year, to 2,794 million yen due to an increase in the cost of sales associated with the posting of spot sales of video distribution.

Content business: The number of paying subscribers



Degree of decrease is being reduced

- Brisk Security-related apps
- Mostly unchanged from the previous quarter

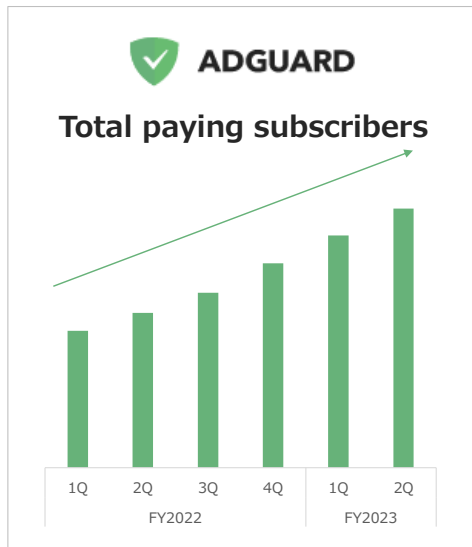
* The number of paying subscribers are including healthcare business 'Luna-luna and 'Caradamedica' whose business model are monthly paid business above.

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As of the end of March, the number of paying subscribers stood at 3.73 million.

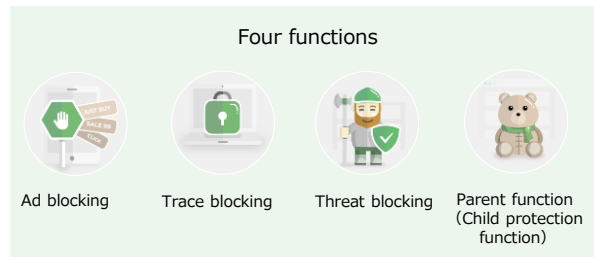
This figure is mostly unchanged from the previous quarter.

Content business: Security-related app



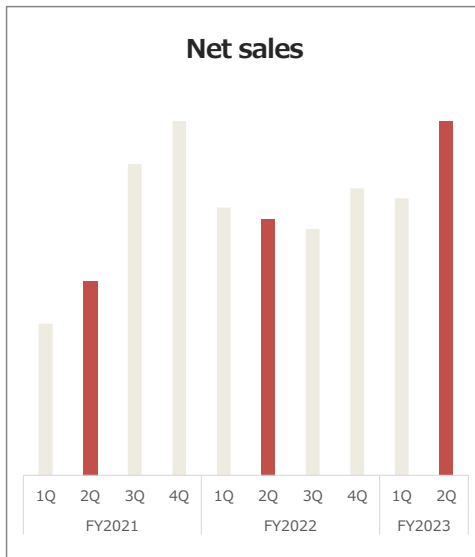
Security-related apps are growing

Over 570 thousand people



As of the end of March, the number of paying subscribers to security related apps had grown to 570,000.

Content business: Original comics content business



Stable growth

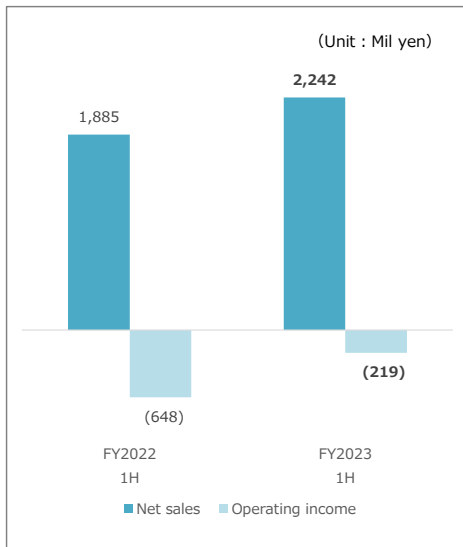
The serialization of
hit titles contributed
Keep in comic titles introduced

The original comics content business had multiple hit titles in serialization, leading to stable growth.

Especially in the second quarter, the business posted its second highest net sales on record.

This was due to growth in the number of downloads, following the dramatization of two hit titles on TV from January through February.

Healthcare business: Net sales and operating income



Net sales increased, and the loss decreased

+ : Cloud drug record service going well

+ : Brisk Childcare DX services

- : The number of paying subscribers decreased

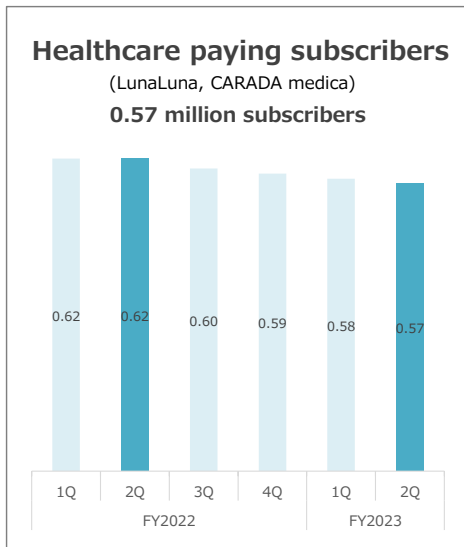
In the healthcare business, net sales increased 18.9% year on year, to 2,242 million yen.

While the number of paying subscribers declined year on year, the cloud drug record service and the childcare DX business performed well.

The operating loss came to 219 million yen.

The loss narrowed by 428 million yen thanks to the effect of higher sales and cost reduction despite the continued burden of costs associated with upfront investments.

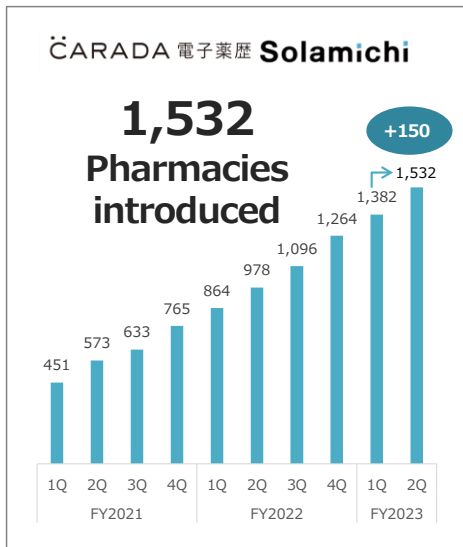
Healthcare business: The number of paying subscribers



Mostly unchanged from the previous quarter

The number of paying subscribers in the healthcare business was mostly unchanged from the previous quarter at 570,000.

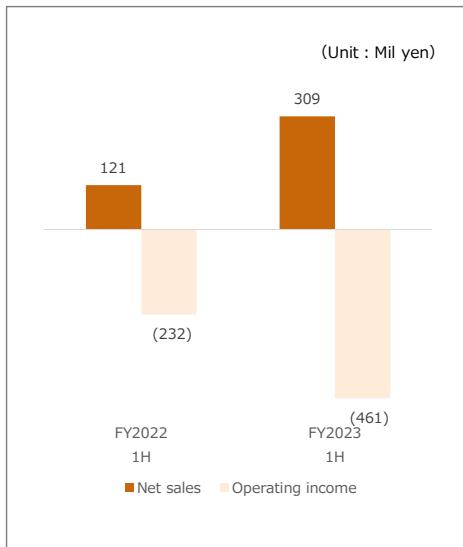
Healthcare business: Cloud drug record service



**Steady expansion
in the number of
pharmacies that
introduced the service**

The cumulative number of pharmacies that have introduced the cloud drug record service increased by 150 stores in the second quarter, reaching a total of 1,532 stores.

School DX business: Net sales and operating income



Sales expansion

- +155%, YoY
- Increase in number of schools introducing

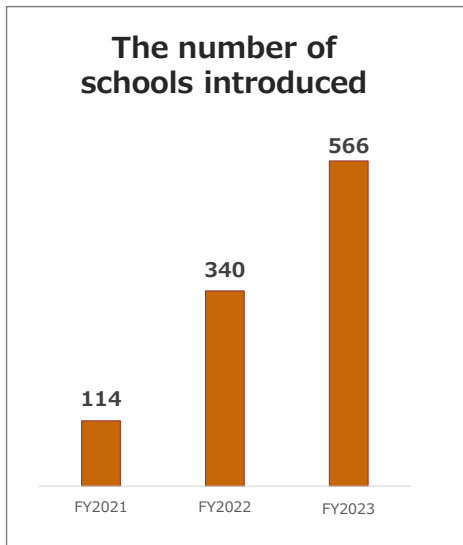
Operating loss

- Stricter requirements for the posting of software assets (FY2022 Q3~)
- Large-scale upfront investment to respond to a surge in orders

In the school DX business, net sales increased 155.1% year on year to 309 million yen.

The operating loss was 461 million yen due to the stricter accounting for software assets since the third quarter of the previous fiscal year and the expansion of subcontracting costs at the same level.

The number of schools introduced



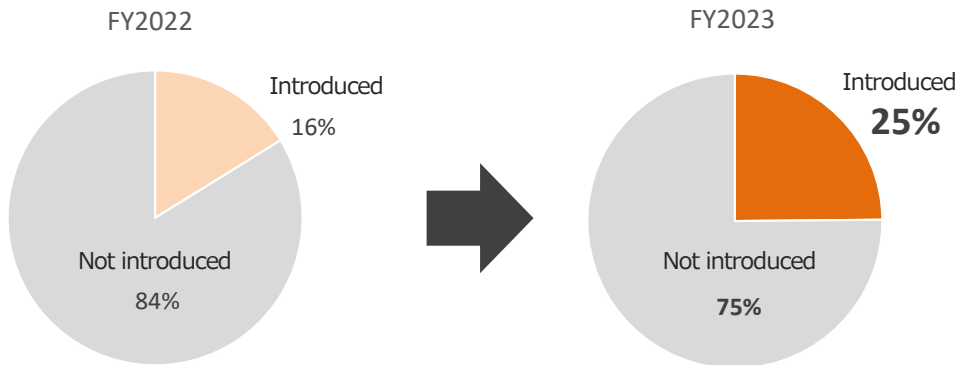
Expansion in number of schools introducing the system from April 2023

- Definite orders received for October 2023 introduction (26 schools)
- Many potential projects for April 2024 introduction

Against a backdrop of growing demand for cloud-based school administration support systems, the number of schools that have adopted BLEND stood at 566 as of the end of March, up 166.7% year on year.

In March, there was a rush to introduce the system, ready for use from the start of the new school year in April.

Share grew to 25% of all private high schools in Japan



*Includes some elementary and junior high schools

Document: Created by our company, sourced from the Ministry of Education, Culture, Sports, Science and Technology (MEXT) website.
(https://www.mext.go.jp/a_menu/koutou/shinkou/main5_a3_00003.htm#topic1)

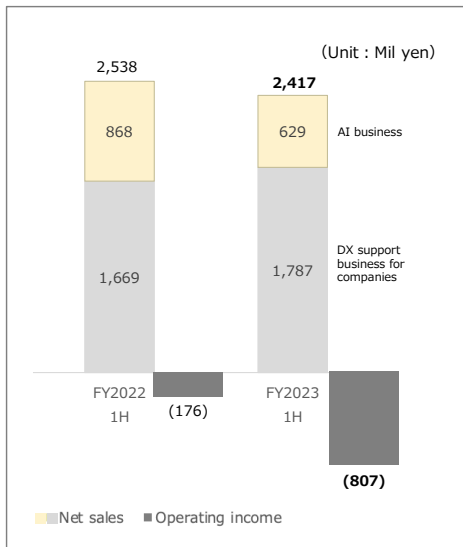
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There is still growing demand for digitization of school administration at schools across Japan.

The cloud-based school administration support system BLEND offered by our subsidiary Motivation Works Inc. not only reduces the workload of teachers but also allows schools to contact guardians, check performance and so forth. As a result, schools, especially private high schools, are keen to introduce the system and BLEND has now been introduced by 25% of all private high schools in Japan.

Other business (Includes DX support business for companies, AI): Net sales and operating income



Sales slight decreased

- AI business

Operating loss

- Responded to loss-making projects in part of the DX support business for major companies

In other business, net sales declined 4.8% year on year to 2,417 million yen.

This was due to a decrease in the volume of orders in the AI business, despite an increase in net sales in the DX support business for companies.

Operating loss increased to 807 million yen.

This was due to a significant increase in cost of sales since the third quarter of the previous fiscal year in some of the DX support businesses for companies.

We are currently working to resolve the loss-making projects in this business and aim to resolve them within the current fiscal year.

Approach in Q3 and beyond

Next, I would like to explain the approach in the third quarter of fiscal year 2023 and beyond.

Basic policies and priority issues for FY2023

1. Healthcare business: Further sales growth

- ① Further expansion of the Cloud drug record service
- ② Promotion of the platform strategy of the childcare DX, "Boshimo"

2. School DX business: Further sales growth

- ① "BLEND" version upgrade
- ② Increased number of schools introduced in April

3. Content business: Securing profit

- ① Original comics content business growth
- ② Security-related app growth

4. Other business: Sales growth

- ① AI business expansion
- ② DX support business expansion

In each segment, we will focus on priority issues based on the following basic policies, respectively.

- In the healthcare business, we will continue to aim for further sales growth. More specifically, we will focus on further expanding the cloud drug record service and will also promote the childcare DX platform strategy.

- Similarly in the School DX Business, we will aim for further sales growth.

- In the content business, the decline in the number of paying subscribers has slowed but we plan to generate profit in the segment as a whole through growth in security-related apps and the original comic business.

- In other business, we will strive to increase orders in the AI business and DX support business and strive to resolve the loss-making projects in the DX support business.

Healthcare business: Cloud drug record service

Connecting pharmacies and patients

Cloud drug record service

ÄARADA 電子薬歴 Solamichi



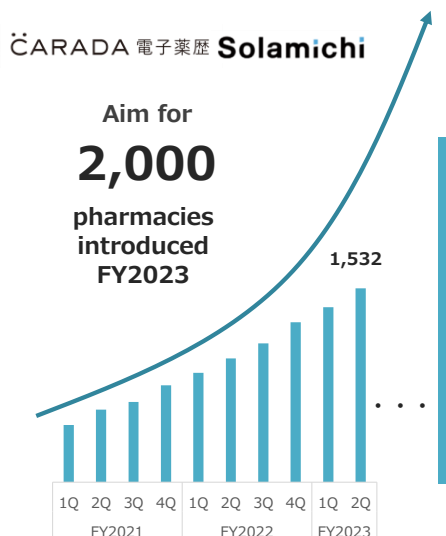
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Next, I would like to explain the progress targets regarding the introduction of our cloud drug record service in the healthcare business.

Healthcare business: Cloud drug record service

Continuing to strengthen cooperation in sales and to reinforce function development



① Continuing to strengthen cooperation in sales

- Collaboration with a major prescription pharmaceutical wholesaler



MEDIPAL HOLDINGS CORPORATION

⇒ Sharing more sales information and improving efficiency



② Continuing to strengthen function development for differentiation

- Connecting the drug histories possessed by different pharmacies
- Home care and nursing functions
- Additive Logic, Guidance Navigation
- Planning to add electronic prescriptions and other functions as needed

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In the cloud drug record service, the number of pharmacies that have introduced dispensing pharmacies is steadily increasing.

To achieve our goal of introducing dispensing pharmacies at 2,000 pharmacies by the end of the current fiscal year, we will strengthen sales and carry out development to enhance functions.

To strengthen sales, we will continue to cooperate in sales with our business partner MEDIPAL HOLDINGS CORPORATION and improve efficiency by meticulously sharing sales information, as in the previous fiscal year.

We will also continue to strengthen the development of functions for differentiation.

Specifically, we will add or enhance functions as needed, such as functions for connecting the drug histories possessed by different pharmacies, for home nursing care, for calculations for necessary nursing hours, guidance navigation, and support for electronic prescriptions.

Healthcare business: Maternal and child health handbook app + Childcare DX services

Connecting parenting households and municipalities

Maternal and child health handbook app + Childcare DX services



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Next, I would like to explain our progress targets for the maternal and child health handbook app “Boshimo” and childcare DX services.



Healthcare business:

Maternal and child health handbook app + Childcare DX services

Development of the platform business starting with the maternal and child health handbook app "Boshimo"

**Phase 1 : Introducing maternal and
child health handbook app "Boshimo"**
Phase 2 : Online consultation
Phase 3 : Childcare DX services

In the field of childcare business, we have divided the services into phases, including the maternal and child health handbook app "Boshimo," online consultations, and childcare DX services, and are expanding our service offerings.



Healthcare business:

Maternal and child health handbook app + Childcare DX services

Phase 1,2 : Maternal and child health handbook app "Boshimo" & Online consultation

Making "Boshimo" the standard maternal and child health handbook app

Phase1 Maternal and child health handbook app

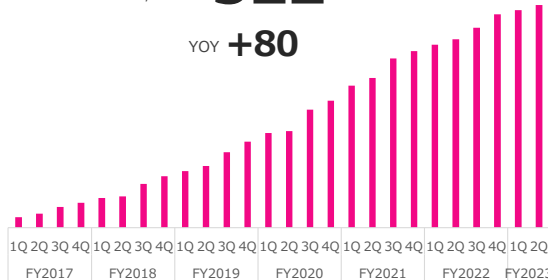
Phase2 Online consultation



As of March, 2023

522

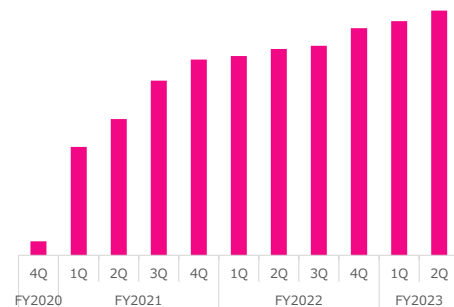
YOY +80



"Boshimo" & Online consultation

70 contracts

As of March, 2023



Among the 1,741 municipalities nationwide, the number of municipalities that have introduced the "Boshimo" app reached 522 as of the end of March. "Boshimo" has become the standard maternal and child health handbook for municipalities.

Additionally, out of the municipalities that have adopted "Boshimo," the number of municipalities that have also introduced the online consultation service has reached 70.



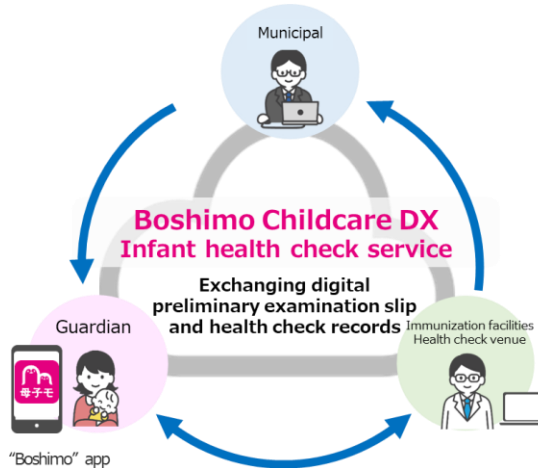
Healthcare business:

Maternal and child health handbook app + Childcare DX services

Phase 3 : Childcare DX services

Rapid increase in introduction of "Questionnaire" and "Appointment function" as add-on functions of maternal and child health handbook app.

The "Accompanying Support Program " initiative launched by the Ministry of Health, Labour and Welfare in January has provided a tailwind.



The number of municipalities
introducing childcare DX services

45

*Transferred to "Children and Families Agency" from April 1 .

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In Phase 3 of the childcare DX services, we are not only focusing on the relationship between parents and municipalities but also extends to the sharing of data with medical institutions such as neighboring pediatric clinics and health centers. Through this, we seek to bring DX to services like childhood immunizations, infant health check, and visits to all households with infants.

Among municipalities that have introduced "Boshimo", the number adding these childcare DX services functions increased sharply from January through March and now totals 45.

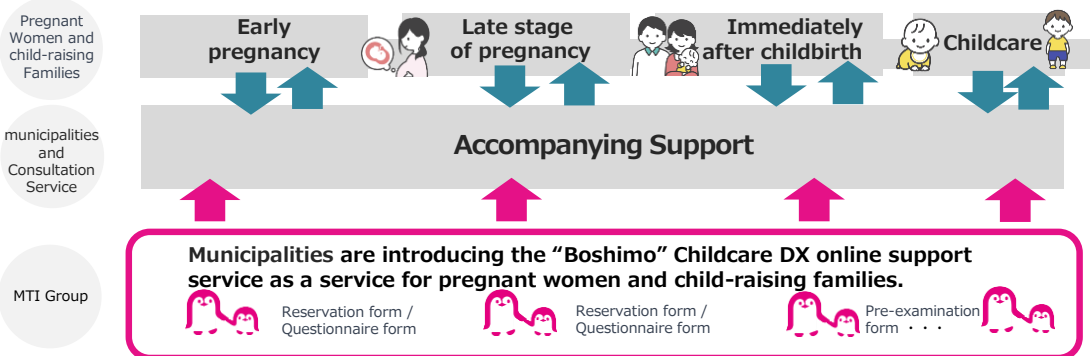
In particular, the number of municipalities introducing the questionnaire and appointment functions increased, with the Ministry of Health, Labour and Welfare's "Accompanied Support Program " launched in January this year serving as a tailwind.

(Reference) Healthcare business: Maternal and child health handbook app + Childcare DX services

Phase 3 : Childcare DX services

What is 'Accompanying Support Program'?

Government pregnancy and childcare support service launched in January 2023. Supports pregnant women and child-raising families with children below the age of 3 to plan for childbirth and raising children. Includes a total of three face-to-face meetings (upon registration of pregnancy and directly before and after birth) and a gift voucher of 100,000 yen. Parents are also put in contact with a local counselling organizations to give them peace of mind and provide a supportive environment for childbirth and parenting.



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I would now like to explain the relationship between the Government's "Accompanied Support Program" for pregnant women and families with children and our childcare DX services.

The "Accompanied Support Program" is a government pregnancy and childcare support service launched in January 2023.

Under the program, municipalities or local counselling organizations offer advice and provide support to pregnant women and families with children below the age of 3 to help them plan for childbirth and raising children.

More specifically, three counselling sessions are available and parents are put in contact with local counselling organizations to give them peace of mind and provide a supportive environment for childbirth and parenting.

In our Boshimo childcare DX support business, we provide various childcare DX support services to municipalities.

The appointment schedule and questionnaire functions are functions that expedite this "Accompanied Support Program" and the number of local governments introducing these services increased sharply by March of the year.



Healthcare business:

Maternal and child health handbook app + Childcare DX services

The “Boshimo” app and Childcare DX service are evolving into a platform.

Phase	1	2	3
Service functionalities	Maternal and child health handbook app	Online consultation	Childcare DX services <ul style="list-style-type: none"> • Childhood immunizations (Digital preliminary examination slip , etc.) • Infant health check • Visits to all households with infants • Questionnaire and reservation form functionality
Fee	¥50,000~ ¥100,000/ month	+ Monthly : Tens of thousands of yen	+ Initial : Millions of yen ~ Monthly : Hundreds of thousands of yen ~
The number of municipalities introduced <small>(Number of municipalities nationwide 1,741)</small>	522	70	45

Tailwind for the
Accompanying
Support
initiative

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One after another, the municipalities that have introduced the maternal and child health handbook app and realized how convenient it is are now introducing various childcare DX service functions.

Most recently, while we are still receiving a great deal of inquiries about the questionnaire and appointment schedule functions, we are also getting many inquiries about other childcare DX services such as the child immunization service, infant health checkup service and infant home visiting service for all houses.

Going forward, we will continue increasing the number of municipalities introducing multiple childcare DX services aiming for the development of a childcare DX platform.



(Reference) Healthcare business:

Maternal and child health handbook app + Childcare DX services

Phase 3 : Childcare DX services

Municipalities which were quick off the mark with childcare measures are pushing ahead with DX through the introduction of MTI's services.

**Kitakyushu City,
Fukuoka Prefecture**

Electronic filing of pregnancy notifications(APP)

- Prior applications for issuance of a maternal and child health handbook can be submitted via the app.
- Pregnancies registered via the app account for more than 93% of the total birth rate.



**Ichihara City,
Chiba Prefecture**

Digital pre-vaccination form for childhood immunizations

- Digital pre-vaccination forms are being used at medical institutions that have introduced the service.
- Time taken for verification between vaccinations has been shortened from 3 minutes to several seconds.



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I would now like to highlight some examples of municipalities that have been quick to introduce our childcare DX services and are leading DX in the childcare field.

Let me start with Kitakyushu City in Fukuoka Prefecture.

Kitakyushu City introduced the "Boshimo" maternal and child health handbook app in January 2021.

Later in April 2022, we signed a cooperation agreement with Kitakyushu City, which has added the pregnancy registration function and appointment function and is embracing DX in its childcare services.

Since pregnancies can be registered via the app, this reduces the number of times guardians visit the city hall and reduces their workload.

Similarly when it comes to the city hall's administrative tasks, the personal identification procedure is simpler and subsequent childcare related application procedures are simpler, resulting in dramatic improvement in overall work efficiency.

Kitakyushu City is currently considering the addition of other functions and we are confident we can support the city's advanced childcare DX through the use of our childcare DX services.

Moving on to the example of Ichihara City in Chiba Prefecture.

Ichihara City already shares data with multiple neighboring medical institutions and the use of digital pre-vaccination screening questionnaires is increasing.

Many types of vaccines must be given to children from birth to age 6 and especially before the age of 2 years; however, intervals must be left between vaccination doses.

The work of checking these vaccination intervals in paper-based immunization registries takes around three minutes each time whereas with digital pre-screening certificates the data can be cross-checked instantly. This is an example where DX is being embraced because the local government's workload is reduced and guardians spend less time waiting.

School DX business

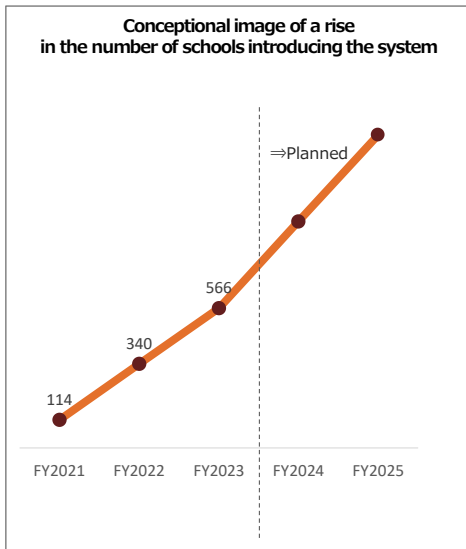
Connecting students and teachers

Cloud-based school affairs support system

BLEND



Next, I would like to explain more about the school DX Business.



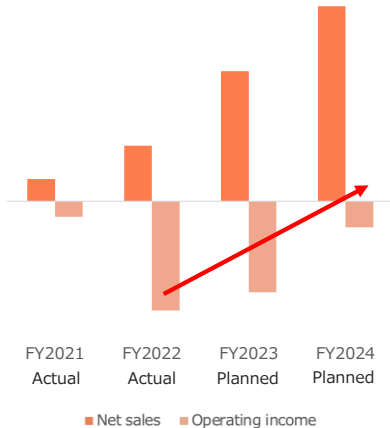
Aiming to expand the number of schools to be introduced in the next fiscal year

- Definite orders received for October 2023 introduction (26 schools)
- Many potential projects for April 2024 introduction

With demand for cloud-based school administration support systems still growing, we plan to further expand the number of schools introducing “BLEND”.

Among schools which decided not to introduce the system before the new school year in April, there is still strong interest in the cloud-based school administration support system and so we will continue conducting proactive sales activities that will lead to introduction by the next fiscal year.

Image of medium-term profit



Aiming to significant reduce loss next fiscal year

Net sales : Expansion of the number of schools that introduced the system
Operating income : Significantly reducing introduction expenses per school

In the school DX business, there is every prospect of a smaller loss next fiscal year, given expectations for a boost to sales from expansion in the number of schools introducing “BLEND” and significant reduction in introduction costs per school as a result of the development of a new version which will reduce development and operating costs in the future.

We remain strongly committed to the school DX business.

Image of medium-term profit

(by segment)

Content business

Degree of decrease in the number of paying subscribers is reduced
Focus on highly in-demand contents

Healthcare business

Focus on expansion of stock sales (=profit)

School DX business

Sharp growth in a short period of time

Other business

(Includes DX support business for companies, AI)

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Our medium-to-long term earnings projection is as shown here.

The school DX business is expected to achieve the fastest business growth, followed by the healthcare business as another growth driver.

The medium-to-long-term earnings projection for the Group as a whole is as shown here and we believe that the healthcare business will be a driver of profit growth in the medium and long term.

By focusing on the steadily expanding cloud drug record service and the childcare DX service, we aim to achieve “sustainable growth” through growth in the subscription-based sales of each service.



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Thank you for your time.