

Financial Results
for the Three Months Ended September 30, 2022
[Japanese GAAP]
(Non-consolidated)



October 31, 2022

Company name: WELLNET CORPORATION
 Stock exchange listing: Tokyo Stock Exchange and Sapporo Securities Exchange
 Code number: 2428
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 Scheduled date of filing quarterly securities report: November 11, 2022
 Scheduled date of commencing dividend payments: –
 Availability of supplementary briefing material on quarterly financial results: None
 Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down.)

1. Financial Results for the Three Months Ended September 30, 2022 (July 1, 2022 to September 30, 2022)

(1) Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended								
September 30, 2022	2,272	8.5	234	79.6	226	68.4	217	100.7
September 30, 2021	2,095	(5.5)	130	(3.7)	134	(8.7)	108	6.2

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
September 30, 2022	11.56	11.49
September 30, 2021	5.77	5.75

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2022	26,327	7,376	27.8	387.76
As of June 30, 2022	23,642	7,410	31.1	390.16

(Reference) Equity: As of September 30, 2022: ¥7,309 million
 As of June 30, 2022: ¥7,355 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2022	–	0.00	–	14.13	14.13
Fiscal year ending June 30, 2023	–				
Fiscal year ending June 30, 2023 (Forecast)		0.00	–	16.00	16.00

(Note) Revision of dividends forecast from recently announced figures: No

3. Financial Results Forecast for the Fiscal Year Ending June 30, 2023 (July 1, 2022 to June 30, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Ordinary profit		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Yen
First half	—	—	—	—	—	—	—
Full year	9,300	3.9	860	14.0	600	12.7	31.83

This forecast is based on the expectation that, with respect to the COVID-19 pandemic, the movement of people, especially in Japan, will recover to a certain degree, and will be greatly affected by the degree of recovery. The Company does not currently anticipate any extraordinary loss related to the valuation of investment securities at this point in time. The Company will promptly announce any significant events that should be disclosed.

* Notes:

- (1) Adoption of special accounting procedures for preparing quarterly financial statements: No
- (2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
 - 1) Changes in accounting policies due to the revision of accounting standards: No
 - 2) Changes in accounting policies other than 1) above: No
 - 3) Changes in accounting estimates: No
 - 4) Retrospective restatement: No
- (3) Total number of issued shares (common shares)
 - 1) Total number of issued shares at the end of the period (including treasury shares):
 - As of September 30, 2022: 19,400,000 shares
 - As of June 30, 2022: 19,400,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - As of September 30, 2022: 547,985 shares
 - As of June 30, 2022: 547,985 shares
 - 3) Average number of shares during the period:
 - Three months ended September 30, 2022: 18,852,015 shares
 - Three months ended September 30, 2021: 18,822,135 shares

* These financial results are outside the scope of quarterly review procedures by a certified public accountant or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

The financial results forecast and dividends forecast above are based on certain assumptions judged to be reasonable based on information available to the Company at the time of the announcement of this document. Actual business performance and dividends may differ from the forecasts due to various factors that may arise in the future.

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1. Qualitative Information on Financial Results for the Period under Review

(1) Explanation of Business Results

1) Analysis of Business Results

The Japanese economy in the three months of the fiscal year under review (July 1, 2022 to September 30, 2022) appears to be on a mild path of recovery from the downturn caused by the COVID-19 pandemic amid the continuing geopolitical risks surrounding the situation in Ukraine, monetary tightening in the US, rising resource prices, accelerating depreciation in the yen, etc.

Under these circumstances, in the Company's main business domain markets, the transportation-related businesses such as airlines, buses, and railroads now appear to be on a path of recovery. At the same time, Digital Transformation (DX) is being actively promoted in a variety of industries and business categories, and the non-face-to-face and non-contact services are increasing, and IT is playing an increasingly important role in society. Under these circumstances, the Company has been promoting activities such as "Response to the age of electronic payment" and "IT Promotion Solution Project for transportation industry and the MaaS Business" as priority measures, with "paperless" and "cashless" as the keywords, and conducting measures considering a lifestyle-based fin-tech platform in this context. We have focused on our "Payment Plus Alpha Platform," including steady expansion of the use of *ekaiin.com*, a service that promotes DX of membership management. Moreover, we opened the "Osaka Innovation Lab" in August 2022 in order to meet our customers' requests for handling large-scale projects in the Kansai region. The Osaka and Kansai region that first adopted our various innovative services, are a base for expanding our cloud services that realize highly convenient and economical platforms with maximum efficiency.

As a result of these efforts, with respect to business results for the three months ended September 30, 2022, the Company reported net sales of ¥2,272 million (up 8.5% year on year), operating profit of ¥234 million (up 79.6% year on year), ordinary profit of ¥226 million (up 68.4% year on year) and profit of ¥217 million (up 100.7% year on year), marking a significant increase in profits year on year.

2) Changes in Environment Surrounding the Company and Response Strategy

The online payment market, the Company's business domain, is expected to continue achieving a certain level of growth in the future, but we believe that the expansion of electronic payment will lead to the commoditization of payments themselves, and we are making efforts to expand and improve cloud services that support DX for businesses as a concrete form of payment plus alpha.

A. "Smartphone payment service," *Shiharai-Hisho* during shift to paperless and cashless

Shiharai-Hisho, which carries out payments via bank-account-linked smartphones, has already been introduced at eight electric power companies, and the number of payments for local taxation and public utility charges that can be made using *Shiharai-Hisho* is also increasing, especially in areas where there are many partner banks, in addition to expanding a seamless linkage with the Company's cloud services ("B"), which are *Bus Mori!*, *ALTAIR triple star*, and *ekaiin.com*, as well as developing embedded electronic money.

For *ekaiin.com*, a membership management service that enables electronic billing and payment of various expenses using the *Shiharai-Hisho* and credit cards, its adoption is now spread across a wide range of fields in addition to its conventional use, including reception work for public interest incorporated association workshops and merchandise sales, solicitation of support for future support crowdfunding for restaurants in Sapporo in fiscal 2022, and solicitation for the commemorative event of the 65th anniversary of the establishment of the Japan Composer's Association "Japan Popular Song Championship." In the future, we will expand our service areas and focus on horizontal development of proven fields.

On the other hand, we have made alliances with 36 banks, including Sumitomo Mitsui Banking Corporation and Japan Post Bank Co., Ltd., and after completion of security measures due to a series of unauthorized use of fund transfer agent accounts connected with several banks, the Company is working to resume operations

with them. As of October 31, 2022, the number of available banks has recovered to 24, and we will make continuous efforts to increase the number of available banks, including new ones.

B. Actively promoting IT (DX) projects for transportation operators

Launched in August 2016, the smartphone electronic ticketing application *Bus Mori!* has expanded the types of electronic ticket to include single-trip tickets, coupon tickets, commuter passes, unlimited ride passes, and discount passes, and now handles more than 450 routes of bus and rail. During the COVID-19 pandemic, the Company is expanding smartphone commuter passes and smartphone coupon tickets, which can be purchased non-face-to-face. *ALTAIR triple star*, the cloud service for transport business operators that we have been developing since 2017, is an all-in-one total cloud service that can automate a series of operations, from inventory and timetable management for rides and events, ticket reservation, purchase, issuance, and authentication, to sales information aggregation and settlement processing. Especially in the case of MaaS, which is provided jointly by multiple operators, our extensive knowledge and experience in the labor-intensive settlement operations is a major advantage.

In the MaaS domain, the track record of implementation expanded as described below.

January 2020: *DohNa!!* in Hakodate City

October 2021: *Sendai MaaS*

January 2022: *OkhoNavi* in the Hokkaido Okhotsk area

February 2022: *JAL MaaS*

May 2022: *Going Around Hokkaido: Public Transportation Usage Promotion Campaign* in Hokkaido

June 2022: *Kumamoto metropolitan area park-and-ride social experiment commuter pass and coupon tickets*

September 2022: One-day subway tickets of the Transportation Bureau City of Sendai (QR electronic tickets) in *Sendai MaaS*

A key feature of the services we deploy is that they comprise a sustainable scheme that continues to be used even after the so-called demonstration period is over, since they realize conversion to variable costs from system costs, which are the mainstay of cloud services.

C. Current status of WELLNET's key product, Multi Payment Services

Multi Payment Services are expected to have the potential to grow in the area of non-face-to-face payments. Various operators have been adopting the Company's payment services for over 30 years, and The Company aims to continue to enhance payment gateway services that contribute to increase in convenience for both operators and consumers. The Company will continue to promote the development of payments and more services, and we believe that we have a significant advantage in this area because of our payment infrastructure.

In September 2022, the new smartphone barcode payment service *stanp* developed by the Company was adopted by Family Mart stores all around Japan, allowing customers using the Company's Multi Payment Services to make payments in real time without having to go through the multi-functional copy machines, by just directly scanning a barcode shown on their smartphone at the store cash registers. Going forward, the Company will actively promote sales activities to have the service adopted at convenience stores other than Family Mart as well.

D. Activities contributing to local communities and SDGs

We recognize that our business of "IT utilization and DX" itself supports the shift to an environmentally friendly business model, and that business expansion itself contributes to global environmental conservation.

As part of our social contribution, we are providing support to many students through our WELLNET Scholarship, established to help financially struggling students at colleges of technology in Hokkaido. Approximately ¥72 million in scholarships was paid to a total of 610 students until the fiscal year 2021, and

many letters of gratitude were received from these students, which motivated our employees. Although many students were affected by COVID-19 in the fiscal year 2021, continuing from last year, we received reports that four colleges of technology in Hokkaido achieved a rate of zero students who dropped out due to financial difficulties, partly as a result of our support. We will continue these activities moving forward.

In addition, to participate in the “Scrum Sapporo” concept promoted by Hokkaido All Olympians, which aims to contribute to the promotion of local sports and to bid for the 2030 Sapporo Olympics and Paralympics in cooperation with Hokkaido, Sapporo City, and others, the Company concluded a sponsorship agreement with Masaya Yamada, a speed skater who holds the Japanese record in the men’s 1000 meters and is expected to compete in the Olympics. We intend to actively utilize *ekaiin.com* to expand support for athletes and also support sports through the Company’s services.

Our new Sapporo head office, which was completed in 2021 and is already in operation, received the platinum rank of WELL Certification in September 2022 for implementing office design that considers the health and working environment of our employees. The WELL Certification is an advanced initiative that began in 2014 in the U.S. to evaluate and certify spaces including buildings and offices from the standpoint of human health. This initiative represents an investment in our employees as human capital, and we also believe that it will lead to increased corporate value in the form of increased productivity, workstyle reforms and contribution towards achieving SDGs. As of today, the majority of entities that received the platinum rank in Japan are construction-related companies, and the Company is the first one to receive the rank in the fintech industry in Japan, and the first company in Hokkaido to do so as well.

E. Performance forecast and shareholder returns

The performance forecast is as presented in “3. Financial Results Forecast for the Fiscal Year Ending June 30, 2023 (July 1, 2022 to June 30, 2023)” in summary information. In addition, out of consideration for our shareholders, we plan for the dividend payout ratio to be 50% or more.

(2) Explanation of Financial Position

Total assets as of September 30, 2022 stood at ¥26,327 million. Current assets were ¥20,072 million. This mainly comprises cash and deposits of ¥16,083 million. Cash and deposits include ¥12,744 million of receiving agency deposits in money collection business, which is the money kept temporarily by the Company up to the predetermined date of transfer to operators in the following month. Non-current assets amounted to ¥6,255 million. This mainly comprises property, plant and equipment of ¥3,921 million, intangible assets of ¥522 million, and investments and other assets of ¥1,811 million.

Meanwhile, total liabilities amounted to ¥18,951 million. This mainly comprises receiving agency deposits of ¥12,744 million.

Total net assets amounted to ¥7,376 million. This mainly comprises shareholders’ equity of ¥7,305 million.

(Reference) Cash and deposits, net (net balance of cash and deposits after offsetting receiving agency deposits related to money collection business)

	(Millions of yen)	
	As of June 30, 2022	As of September 30, 2022
(A) Cash and deposits	13,129	16,083
(B) Receiving agency deposits	10,170	12,744
(A)-(B) Cash and deposits, net	2,958	3,339

(3) Explanation of Financial Results Forecast and Other Forward-looking Information

No changes have been made to the financial results forecast for the fiscal year ending June 30, 2023 provided in the “Notice Concerning Announcement of Financial Results Forecasts and Dividend Forecasts” announced on September 6, 2022.

2. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	13,129,291	16,083,179
Accounts receivable - trade and contract assets	537,865	559,964
Merchandise	2,925	2,985
Work in process	465	748
Supplies	391	538
Deposits paid	2,637,730	2,650,442
Other	555,613	774,437
Total current assets	16,864,282	20,072,336
Non-current assets		
Property, plant and equipment	4,207,103	3,921,056
Intangible assets	565,450	522,980
Investments and other assets	2,005,800	1,811,328
Total non-current assets	6,778,354	6,255,365
Total assets	23,642,636	26,327,701
Liabilities		
Current liabilities		
Accounts payable - trade	432,119	411,170
Deposits received	2,857,433	3,030,696
Current portion of long-term borrowings	100,000	75,000
Receiving agency deposits	10,170,572	12,744,068
Income taxes payable	157,745	116,755
Provision for bonuses	-	42,180
Provision for point card certificates	49	699
Other	487,884	502,641
Total current liabilities	14,205,805	16,923,212
Non-current liabilities		
Long-term borrowings	1,800,000	1,800,000
Provision for share awards	70,740	71,550
Asset retirement obligations	10,882	10,890
Long-term accounts payable - other	119,007	119,007
Other	25,397	26,994
Total non-current liabilities	2,026,027	2,028,442
Total liabilities	16,231,833	18,951,655
Net assets		
Shareholders' equity		
Share capital	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	3,906,621	3,858,135
Treasury shares	(729,679)	(729,679)
Total shareholders' equity	7,353,940	7,305,454
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,307	4,521
Total valuation and translation adjustments	1,307	4,521
Share acquisition rights	55,555	66,070
Total net assets	7,410,803	7,376,046
Total liabilities and net assets	23,642,636	26,327,701

(2) Statement of Income
(Three months ended September 30)

(Thousands of yen)

	For the three months ended September 30, 2021	For the three months ended September 30, 2022
Net sales	2,095,168	2,272,366
Cost of sales	1,777,072	1,830,237
Gross profit	318,096	442,128
Selling, general and administrative expenses	187,426	207,504
Operating profit	130,669	234,624
Non-operating income		
Interest income	521	524
Gain on investments in investment partnerships	499	–
Rental income	772	478
Subsidy income	3,705	–
Other	1,209	1,756
Total non-operating income	6,708	2,759
Non-operating expenses		
Interest expenses	1,008	957
Foreign exchange losses	1,591	5,365
Share acquisition rights issuance costs	–	2,570
Loss on investments in investment partnerships	–	1,560
Total non-operating expenses	2,600	10,453
Ordinary profit	134,778	226,930
Extraordinary income		
Gain on reversal of share acquisition rights	16,547	752
Subsidy income	–	88,399
Total extraordinary income	16,547	89,151
Profit before income taxes	151,325	316,081
Income taxes - current	47,266	107,224
Income taxes - deferred	(4,483)	(9,036)
Total income taxes	42,783	98,187
Profit	108,542	217,893

(3) Notes to Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes to substantial change in the amount of shareholders' equity)

There is no relevant information.

(Adoption of special accounting procedures for preparing quarterly financial statements)

There is no relevant information.

(Changes in accounting policies)

There is no relevant information.