

Financial Results
for the Nine Months Ended March 31, 2023
[Japanese GAAP]
(Non-consolidated)



May 8, 2023

Company name: WELLNET CORPORATION
 Stock exchange listing: Tokyo Stock Exchange and Sapporo Securities Exchange
 Code number: 2428
 URL: <https://www.wellnet.co.jp>
 Representative: Kazuhiro Miyazawa, President and Representative Director
 Contact: Tatsuya Igarashi, Executive Officer, General Manager of Administrative Division
 Phone: +81-11-350-7770
 Scheduled date of filing quarterly securities report: May 12, 2023
 Scheduled date of commencing dividend payments: –
 Availability of supplementary briefing material on quarterly financial results: Not available
 Schedule of quarterly financial results briefing session: No

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

1. Financial Results for Nine Months Ended March 31, 2023 (July 1, 2022 to March 31, 2023)

(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	%
Nine months ended								
March 31, 2023	7,169	6.5	784	36.2	785	34.1	533	27.2
March 31, 2022	6,732	0.1	576	12.9	585	8.0	419	11.9

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
March 31, 2023	28.29	28.03
March 31, 2022	22.28	22.20

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2023	29,216	7,721	26.2	404.96
As of June 30, 2022	23,642	7,410	31.1	390.16

(Reference) Equity: As of March 31, 2023: ¥7,643 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
Fiscal year ended June 30, 2022	Yen	Yen	Yen	Yen	Yen
Fiscal year ending June 30, 2022	–	0.00	–	14.13	14.13
Fiscal year ending June 30, 2023	–	0.00	–		
Fiscal year ending June 30, 2023 (Forecast)				16.43	16.43

(Note) Revision of dividends forecast from recently announced figures: Yes

For more details, please refer to “(3) Explanation of Financial Results Forecast and Other Forward-looking Information, 1. Qualitative Information on Financial Results for the Period under Review” on page 6 of the attached materials.

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
Full year	9,400	5.0	920	21.9	620	16.5	32.85

(Note) Revision of financial results forecast from recently announced figures: Yes

For more details, please refer to “(3) Explanation of Financial Results Forecast and Other Forward-looking Information, 1. Qualitative Information on Financial Results for the Period under Review” on page 6 of the attached materials.

* 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: Yes

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 March 31, 2023: 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 March 31, 2023: 525,475 shares

As of June 30, 2022: 547,985 shares

3) Average number of shares during the period:

Nine months ended March 31, 2023: 18,863,599 shares

Nine months ended March 31, 2022: 18,837,511 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 nine months of the fiscal year under review (July 1, 2022 to March 31, 2023) 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, and the sharp rise in prices such as resource prices and energy bills. Regarding the COVID-19 pandemic, the classification for COVID-19 will be changed to a Class V Infectious Disease, which is the same level as the seasonal flu, beginning on May 8, 2023, and positive signs for a future recovery in economic activity have also started to emerge.

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.

The Company has also 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, and has focused on our "Payment Plus Alpha Platform," including steady expansion of the use of *ekaiin.com*, a service that promotes DX of membership management.

As indicated in the "Start of Development of a Digital Travel Pass Using QR Codes" announced on November 18, 2022, the Surutto KANSAI Association, comprised of 61 train and bus operators primarily in the Kansai area as well as Okayama and Shizuoka, selected the Company as the system partner for services related to the digital travel pass using QR Codes, for which services are planned to commence in spring 2024. Accordingly, the Company newly established the "Osaka Innovation Lab," and aims to achieve a highly convenient service by formalizing joint development operations and promoting the shift to contactless and cashless transactions using widespread QR Code travel passes. The Company will strengthen its relationship with members of the Association by participating in this project as well as accumulating relevant knowledge and greatly expanding thin client services for transport business operators. In addition, in March 2023, the Company conducted a capital tie-up with HARP Co., Ltd. by acquiring a portion of the shares of the said company, and plans to further promote DX among local government bodies and service users all over Japan through mutual cooperation with HARP, which focuses on providing cloud-based services to local government bodies. Moreover, in April 2023, the Company relocated and expanded the Tokyo head office, which is a sales office, in order to expand the office space as part of efforts to strengthen the sales organization, and aims to further increase net sales and profit.

With respect to business results for the nine months ended March 31, 2023, the Company reported net sales of ¥7,169 million (up 6.5% year on year), operating profit of ¥784 million (up 36.2% year on year), ordinary profit of ¥785 million (up 34.1% year on year) and profit of ¥533 million (up 27.2 % 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 as described

in B below, 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 March 31, 2023, the number of available banks has recovered to 25, and we will make continuous efforts to increase the number of available banks, including new ones.

B. Actively promoting IT (DX) projects for buses

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 560 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. As described above, the Company plans to introduce the Surutto KANSAI Association's digital travel pass service using QR Codes in spring 2024, and is actively promoting proposal activities in many areas.

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 ¥86 million in scholarships was paid to a total of 768 students until the fiscal year 2022, 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 2022, 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. In November 2022, our cooperation in the education and research activities of these activities was recognized and we received a certificate of appreciation from the Japan Federation of KOSEN Association. 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 in April 2022 and began supporting Masaya Yamada, a speed skater who holds the Japanese record in the men's 1000 meters and is expected to compete in the Olympics. Subsequently, he joined the Company in April 2023 and continues his efforts as an employee. 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

With regard to the financial results forecast for the fiscal year ending June 30, 2023, the Company expects net sales and each profit item to increase compared to the previously announced forecast, primarily for transportation-related DX products have been favorable due to the mild recovery trend from the downturn caused by the COVID-19 pandemic. As announced in "Notice Regarding Relocation of Tokyo Head Office" on April 10, 2023, the Company relocated the Tokyo head office on April 24, 2023, and relocation expenses have been included in the forecasted figures for each profit item.

The year-end dividend forecast for the fiscal year ending June 30, 2023 has been revised from the previously forecasted ¥16 to ¥16.43, which is an increase of ¥0.43, based on the basic policy for sharing profits with shareholders (dividend payout ratio of 50% or more).

Full-year non-consolidated financial results forecasts for the fiscal year ending June 30, 2023 (July 1, 2022 to June 30, 2023)

	Net sales	Ordinary profit	Profit	Basic earnings per share
	Million yen	Million yen	Million yen	Yen
Previously announced forecast (A)	9,300	860	600	31.83
Revised forecast (B)	9,400	920	620	32.85
Change (B-A)	100	60	20	
Change (%)	1.1	7.0	3.3	
(Reference) Actual results for the previous fiscal year (Fiscal year ended June 30, 2022)	8,950	754	532	28.25

Dividends forecast

	Annual dividends		
	2nd quarter-end	Year-end	Total
	Yen	Yen	Yen
Previous forecast	–	16.00	16.00
Revised forecast	–	16.43	16.43
Actual results for the current fiscal year	0.00		
(Reference) Actual results for the previous fiscal year (Fiscal year ended June 30, 2022)	0.00	14.13	14.13

In addition, out of consideration for our shareholders, we plan for the dividend payout ratio to be 50% or more.

- * 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. This forecast is based on the expectation that 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 will promptly announce any significant events that should be disclosed.

(2) Explanation of Financial Position

Status of assets, liabilities, and net assets

Total assets as of March 31, 2023 stood at ¥29,216 million. Current assets were ¥22,935 million. This mainly comprises cash and deposits of ¥17,861 million. Cash and deposits include ¥14,544 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 ¥6,280 million. This mainly comprises property, plant and equipment of ¥3,897 million, intangible assets of ¥509 million, and investments and other assets of ¥1,873 million.

Meanwhile, total liabilities amounted to ¥21,495 million. This mainly comprises receiving agency deposits of ¥14,544 million.

Total net assets amounted to ¥7,721 million. This mainly comprises shareholders' equity of ¥7,636 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 March 31, 2023
(A) Cash and deposits	13,129	17,861
(B) Receiving agency deposits	10,170	14,544
(A)-(B) Cash and deposits, net	2,958	3,316

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

The explanation is as presented above in “E. Performance forecast and shareholder returns” under “(2) Changes in Environment Surrounding the Company and Response Strategy” in “(1) Explanation of Business Results.”

2. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	13,129,291	17,861,596
Accounts receivable - trade, and contract assets	537,865	599,874
Merchandise	2,925	3,810
Work in process	465	295
Supplies	391	937
Deposits paid	2,637,730	3,084,042
Other	555,613	1,385,031
Total current assets	16,864,282	22,935,588
Non-current assets		
Property, plant and equipment	4,207,103	3,897,540
Intangible assets	565,450	509,453
Investments and other assets	2,005,800	1,873,517
Total non-current assets	6,778,354	6,280,511
Total assets	23,642,636	29,216,100
Liabilities		
Current liabilities		
Accounts payable - trade	432,119	427,465
Short-term borrowings	–	500,000
Deposits received	2,857,433	3,252,233
Current portion of long-term borrowings	100,000	75,000
Receiving agency deposits	10,170,572	14,544,848
Income taxes payable	157,745	184,153
Provision for bonuses	–	57,674
Provision for point card certificates	49	206
Other	487,884	473,009
Total current liabilities	14,205,805	19,514,591
Non-current liabilities		
Long-term borrowings	1,800,000	1,750,000
Provision for share awards	70,740	74,721
Asset retirement obligations	10,882	10,906
Long-term accounts payable - other	119,007	119,007
Other	25,397	25,810
Total non-current liabilities	2,026,027	1,980,445
Total liabilities	16,231,833	21,495,037
Net assets		
Shareholders' equity		
Share capital	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	3,906,621	4,162,557
Treasury shares	(729,679)	(703,349)
Total shareholders' equity	7,353,940	7,636,207
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,307	7,147
Total valuation and translation adjustments	1,307	7,147
Share acquisition rights	55,555	77,708
Total net assets	7,410,803	7,721,062
Total liabilities and net assets	23,642,636	29,216,100

(2) Statement of Income
(Nine months ended March 31)

(Thousands of yen)

	For the nine months ended March 31, 2022	For the nine months ended March 31, 2023
Net sales	6,732,588	7,169,480
Cost of sales	5,619,339	5,745,307
Gross profit	1,113,249	1,424,172
Selling, general and administrative expenses	537,189	639,447
Operating profit	576,060	784,725
Non-operating income		
Interest income	544	546
Foreign exchange gains	–	1,234
Gain on investments in investment partnerships	16,952	–
Rental income	2,548	775
Subsidy income	–	2,467
Other	6,602	3,194
Total non-operating income	26,648	8,218
Non-operating expenses		
Interest expenses	2,966	3,992
Foreign exchange losses	14,030	–
Share acquisition rights issuance costs	–	2,570
Loss on investments in investment partnerships	–	900
Other	–	328
Total non-operating expenses	16,996	7,791
Ordinary profit	585,712	785,152
Extraordinary income		
Gain on reversal of share acquisition rights	17,299	831
Subsidy income	–	88,399
Total extraordinary income	17,299	89,230
Extraordinary losses		
Loss on valuation of investment securities	–	63,891
Total extraordinary losses	–	63,891
Profit before income taxes	603,011	810,491
Income taxes - current	183,043	286,447
Income taxes - deferred	318	(9,676)
Total income taxes	183,361	276,770
Profit	419,650	533,721

(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)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter the "Guidance on Fair Value Measurement") from the beginning of the first quarter of the current fiscal year, and in accordance with the transitional treatment prescribed in paragraph 27-2 of the Guidance on Fair Value Measurement, the new accounting policies set forth in the Guidance on Fair Value Measurement have been applied prospectively.

This change has no effects on the quarterly financial statements.

(Changes in accounting estimates)

There is no relevant information.

(Significant subsequent events)

There is no relevant information.