

Financial Supplementary Materials

for the Third Quarter of FY2025

Headwaters Co., Ltd.

November 14, 2025 Securities code: 4011

FY2025 1Q-3Q Consolidated Financial Results Overview

(Thousand yen)

(Thousand yen)

	FY2024 1Q-3Q Results		FY2025 1Q-3Q Results			
		Pct. to net sales (%)		Pct. to net sales (%)	YoY change (%)	Full-year forecast achievement rate (%)
Net sales	2,087,675	100.0	2,702,050	100.0	129.4	67.4
AI	1,041,187	49.9	1,765,564	65.3	169.6	80.3
DX	948,813	45.4	858,899	31.8	90.5	53.7
Product	97,675	4.7	77,586	2.9	79.4	37.5
Operating profit (loss)	216,709	10.4	98,089	3.6	45.3	29.9
Ordinary profit (loss)	218,306	10.5	71,127	2.6	32.6	21.4
Profit (loss) attributable to owners of parent	145,884	7.0	45,478	1.7	31.2	19.2
Basic earnings (loss) per share	38.54 yen		11.97 yen			



FY2025 1Q-3Q Financial Summary

FY2025 Key Performance Indicators

Sales and Recruiting

Net sales

- We **achieved new record high net sales (up 29.4% YoY)** for the second consecutive quarter by fully tapping into demand for AI, despite being affected by the Trump tariffs.
 - AI: Net sales **hit a new record high for the fifth consecutive quarter** mainly generative AI and AI agent projects. **(YoY: 169.6%)**
 - In addition to unique workshops for introducing generative AI and hackathon projects, the demand for Azure data platform projects continued to be high.
 - DX: Existing medium- and large-scale projects are progressing steadily, although some were affected by the Trump tariffs.
 - Product: Terminated low-profit services and began to focus solely on SyncLect services in August.
- Unit sales per client: **Reached a new record high** for two consecutive quarters
 - Loyal client strategy: The unit sales price continued to rise with there being a steady shift to our major clients being large companies with sales of over one trillion yen.
 - Development of new businesses with existing clients: Continued to increase client life time value by promoting expansion to other departments and the proposal of derivative projects based on the provision of collaborative support.

Operating Profit / Ordinary Profit

- Gross profit and margin: **Achieved a record high gross profit** for two consecutive quarters by increasing unit sales prices and steadily advancing projects.
- SG&A expenses: Personnel expenses and personnel recruitment expenses increased as a result of an increase in employees. At the same time, commission expenses increased due to the increase of the prices of the services we use.
- Operating Profit / Operating Profit Margin: The operating profit margin increased to 11.5%, a figure that is close to a record high.
- Non-operating loss: Recorded a loss on valuation of derivative, which continued from 2Q

Recruiting

- Net increase of 13 employees in the third quarter (compared to a net increase of 26 in the same period of FY2024).
- **Net increase of 63 employees** compared to the annual plan of a net increase of 80 employees: Progress rate: 78.8% (Annual Plan is expected to be achieved)
- Target age groups in recruitment: Mainly mid- to high-level talent
- Turnover rate: Expected to be 13% to 15% compared to the targeted 10%



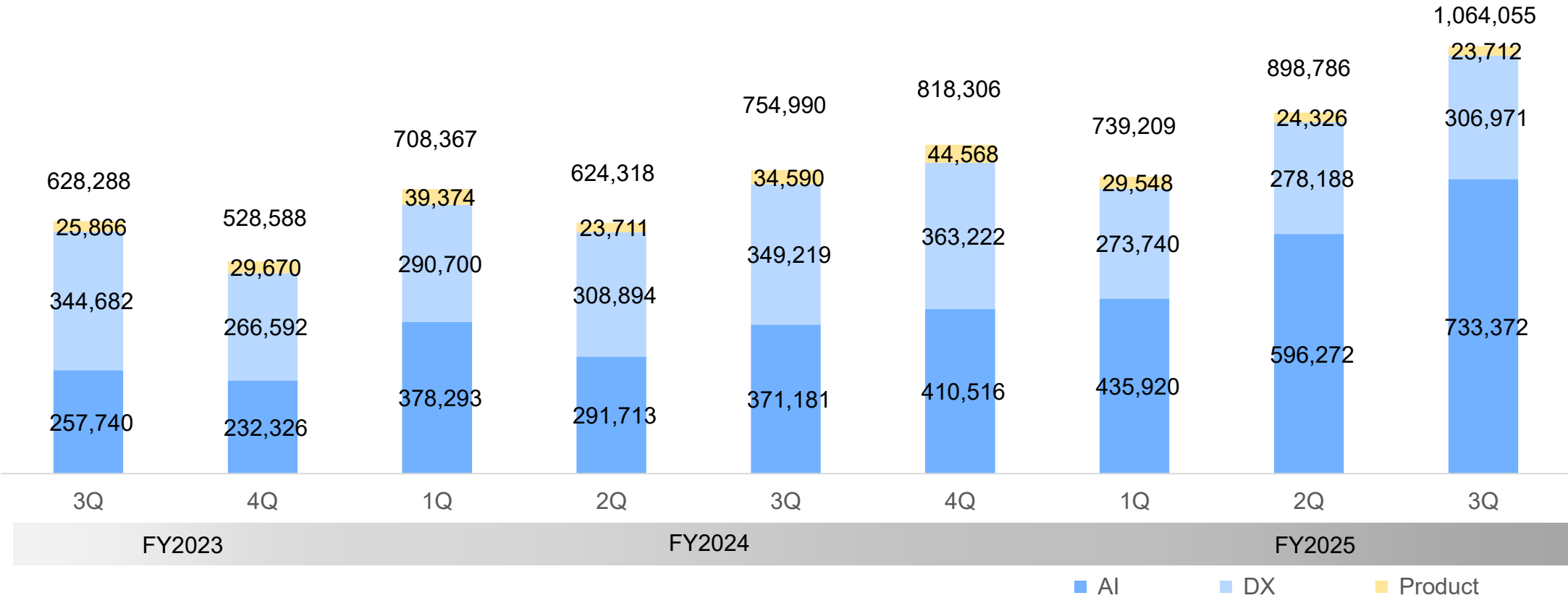
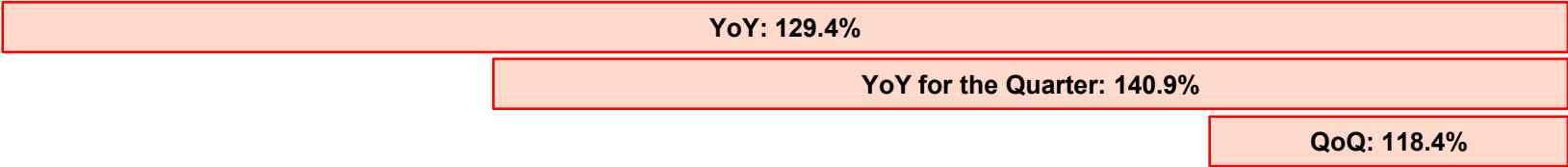
Net Sales by Service Category

(Thousand yen)

FY2023 Sales: 2,315,088

FY2024 Sales: 2,905,981

FY2025 1Q-3Q Sales: 2,702,055





Cost of Sales by Service Category

(Thousand yen)

FY2023 Cost of Sales: 1,459,999

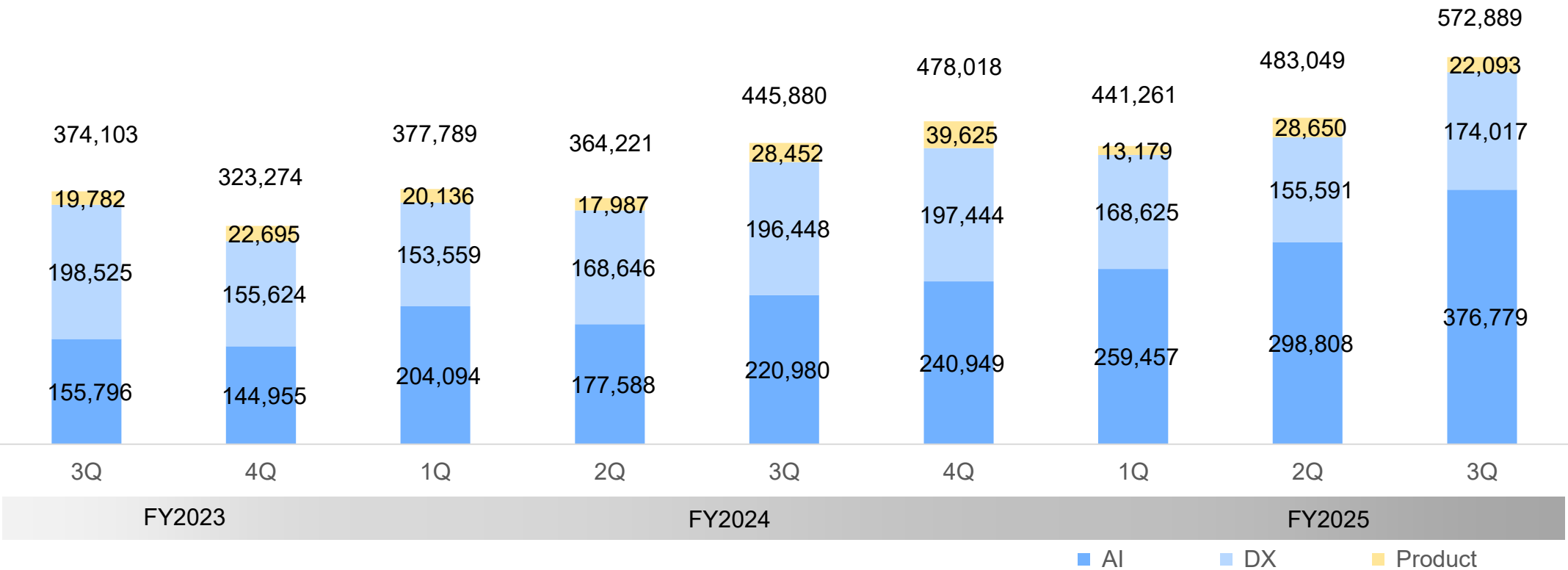
FY2024 Cost of Sales: 1,665,908

FY2025 1Q-3Q Cost of Sales: 1,497,199

YoY: 126.0%

YoY for the Quarter: 128.5%

QoQ: 118.6%





Gross Profit by Service Category

(Thousand yen)

FY2023 Gross Profit: 855,088

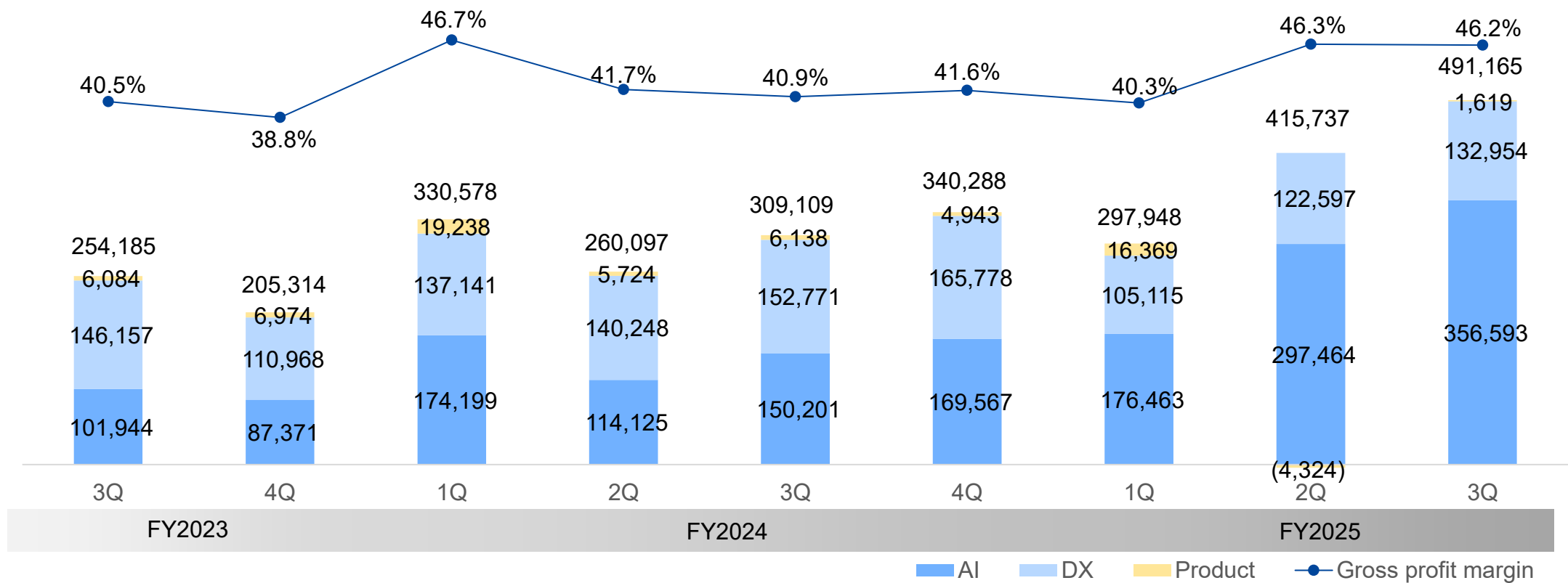
FY2024 Gross Profit: 1,240,073

FY2025 1Q-3Q Gross Profit: 1,204,850

YoY: 133.9%

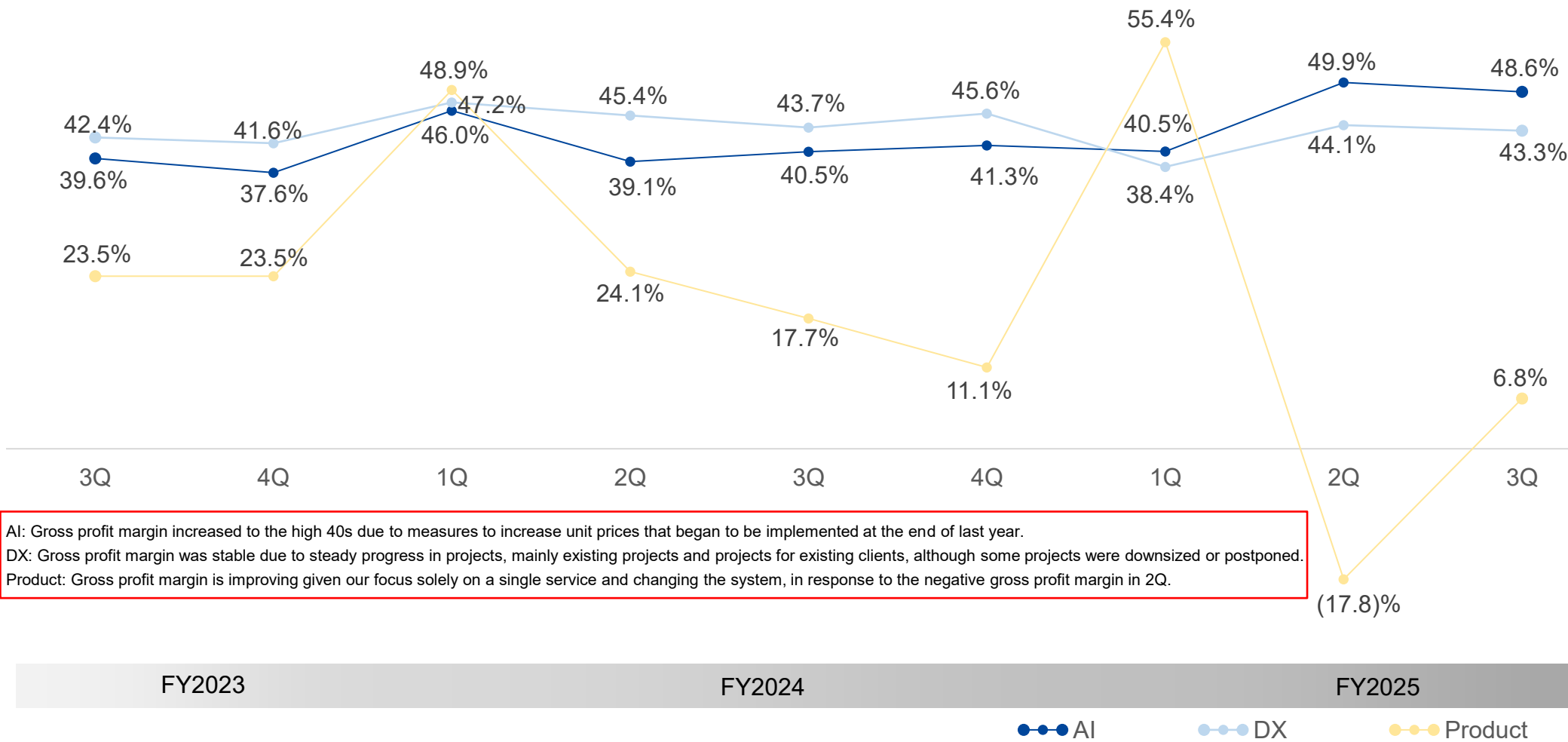
YoY for the Quarter: 158.9%

QoQ: 118.1%





Gross Profit Margin by Service Category





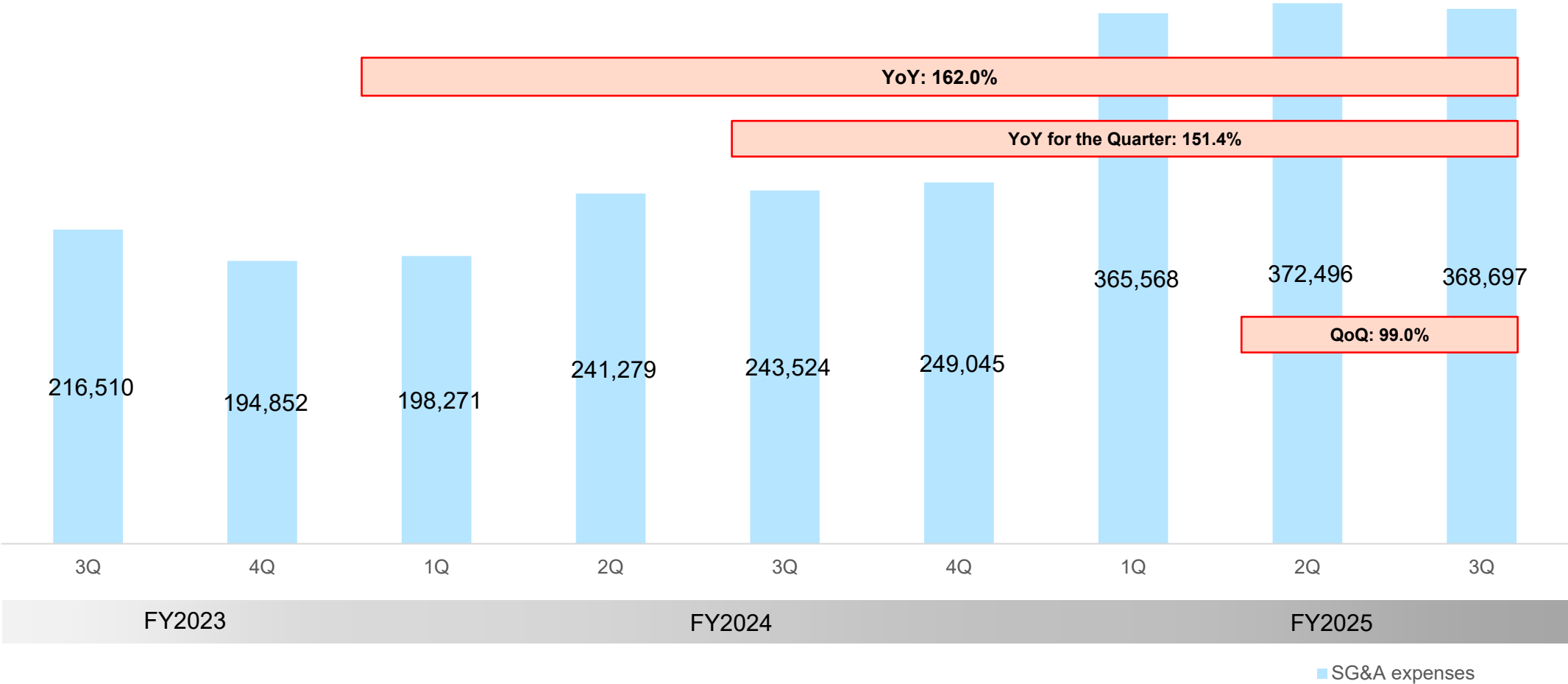
SG&A Expenses

(Thousand yen)

FY2023 SG&A expenses: 760,227

FY2024 SG&A expenses: 932,119

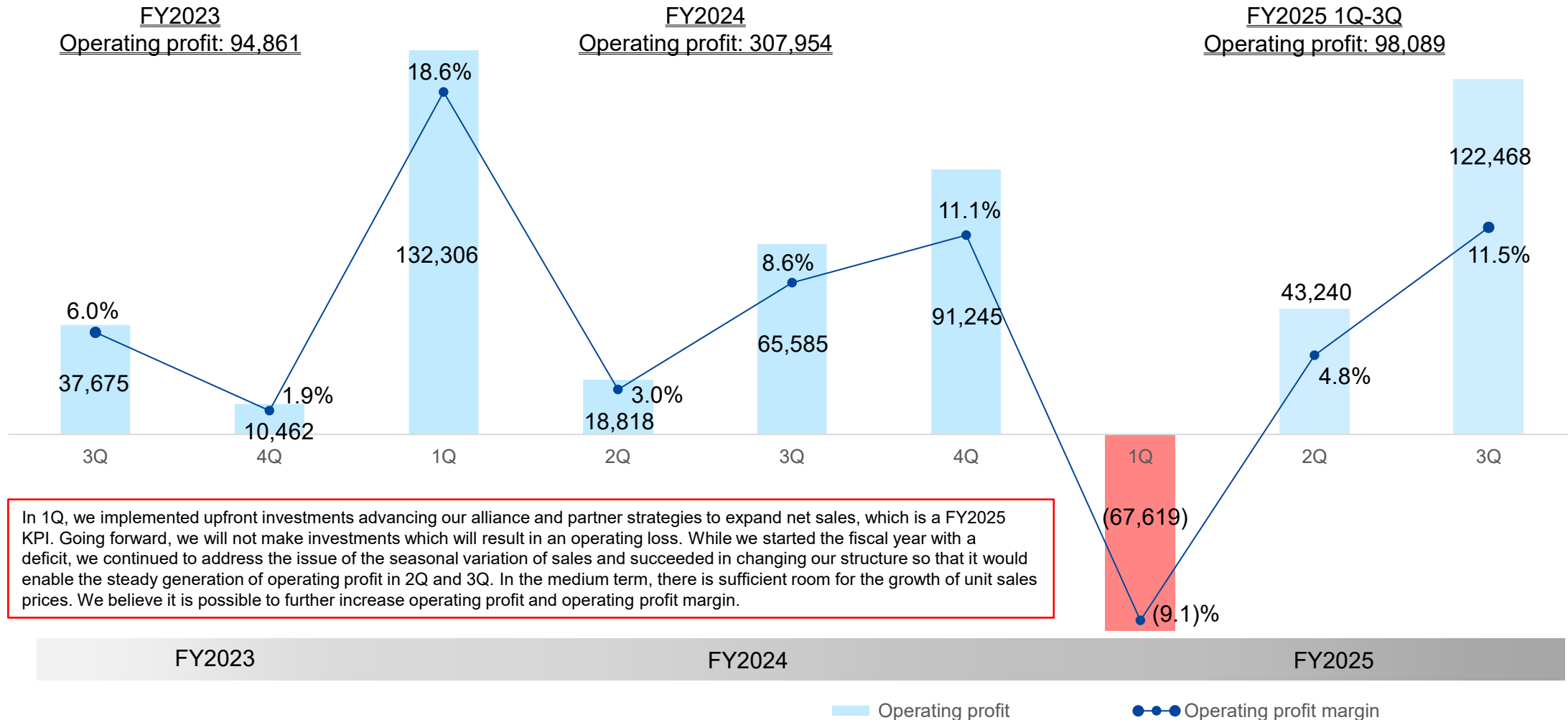
FY2025 1Q-3Q SG&A expenses: 1,106,761





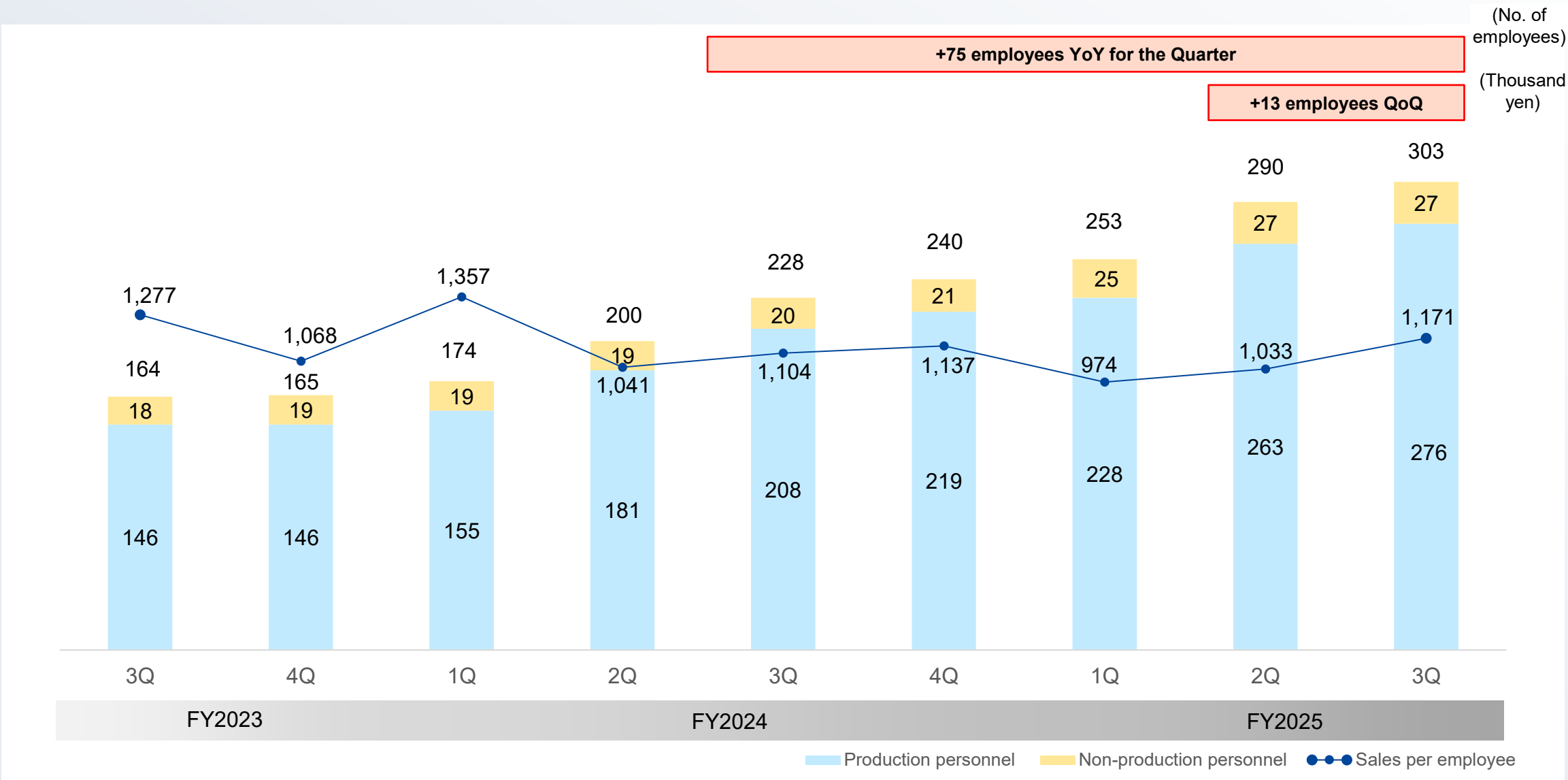
Operating Profit / Operating Profit Margin

(Thousand yen)





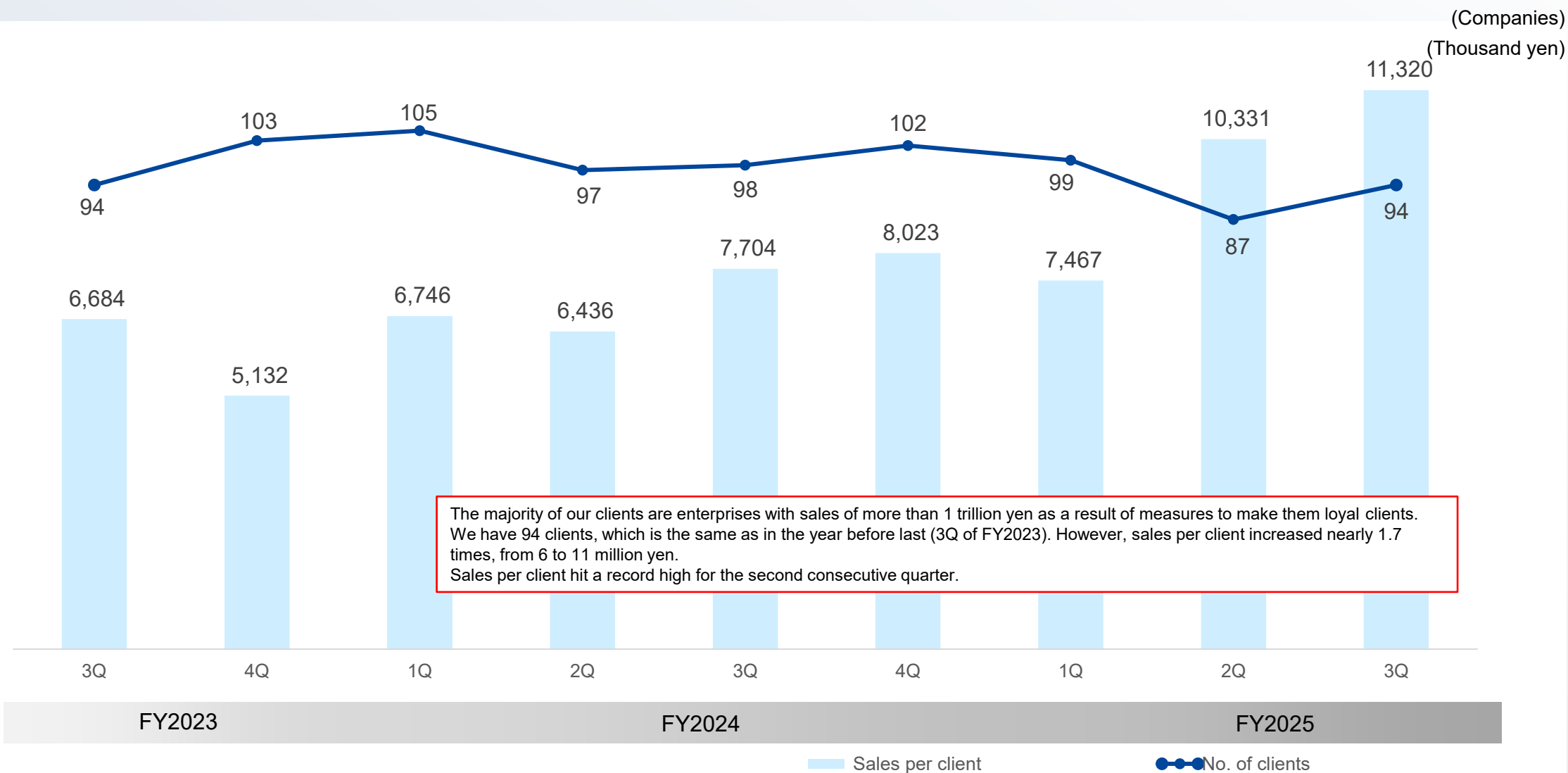
Employees, Monthly Sales Per Employee



* Contract and part-time employees are not included beginning from FY2024 for the consistency with other disclosed materials.



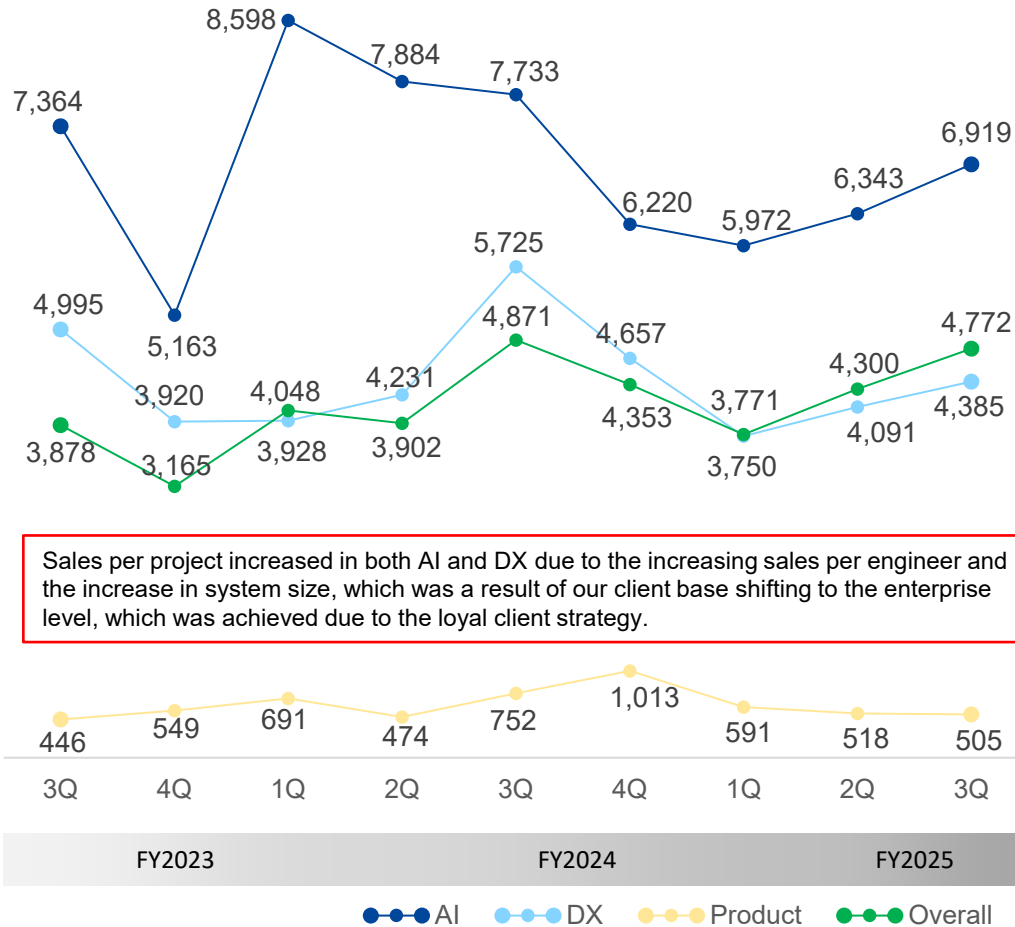
Number of Clients and Sales Per Client





Unit Sales Price, Number of Projects and Contractual Chain Status by Service Category

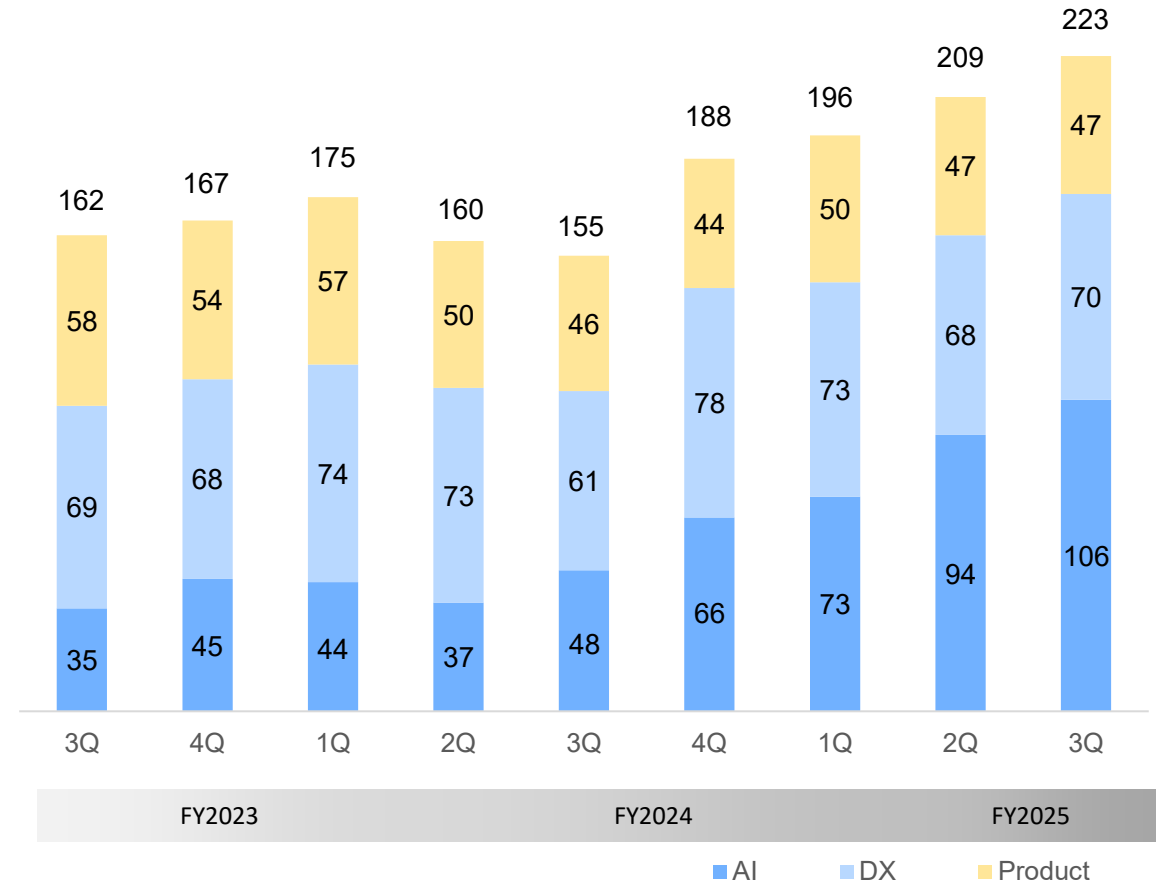
Unit Sales Price by Service Category (Thousand yen)



Sales per project increased in both AI and DX due to the increasing sales per engineer and the increase in system size, which was a result of our client base shifting to the enterprise level, which was achieved due to the loyal client strategy.

No. of Projects by Service Category

The number of business inquiries increased significantly as a result of our increased visibility with Microsoft due to our participating in its partner program and an event it hosted (1.9 times greater than the previous fiscal year).



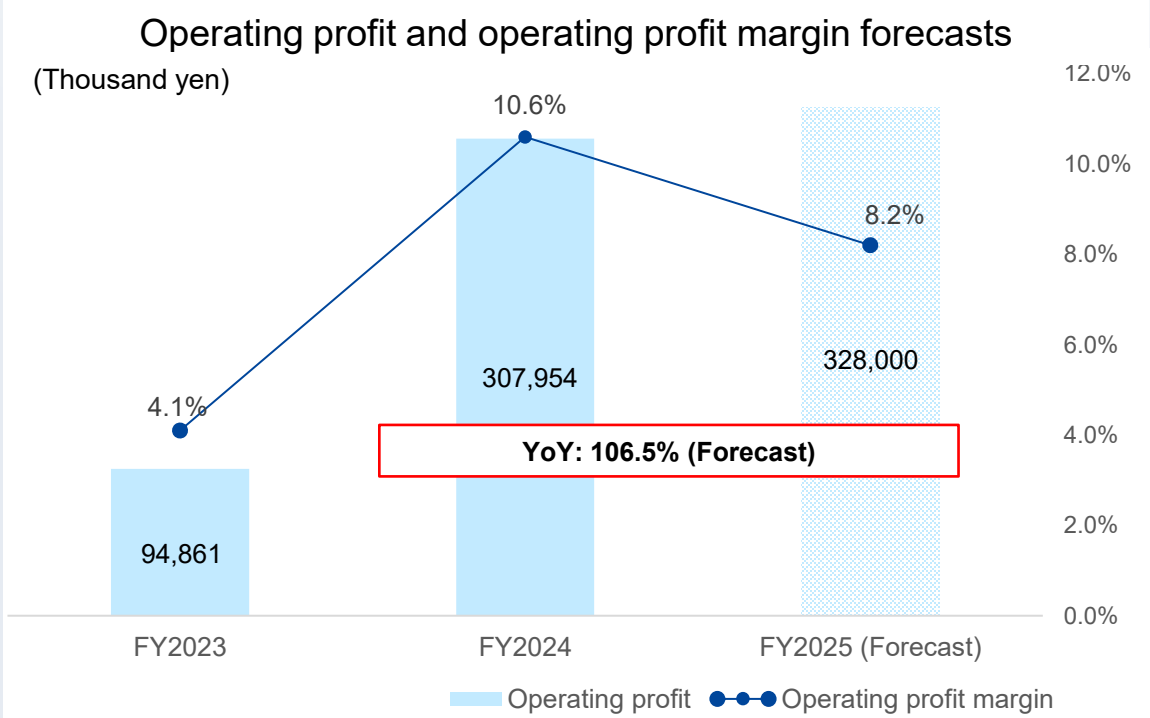
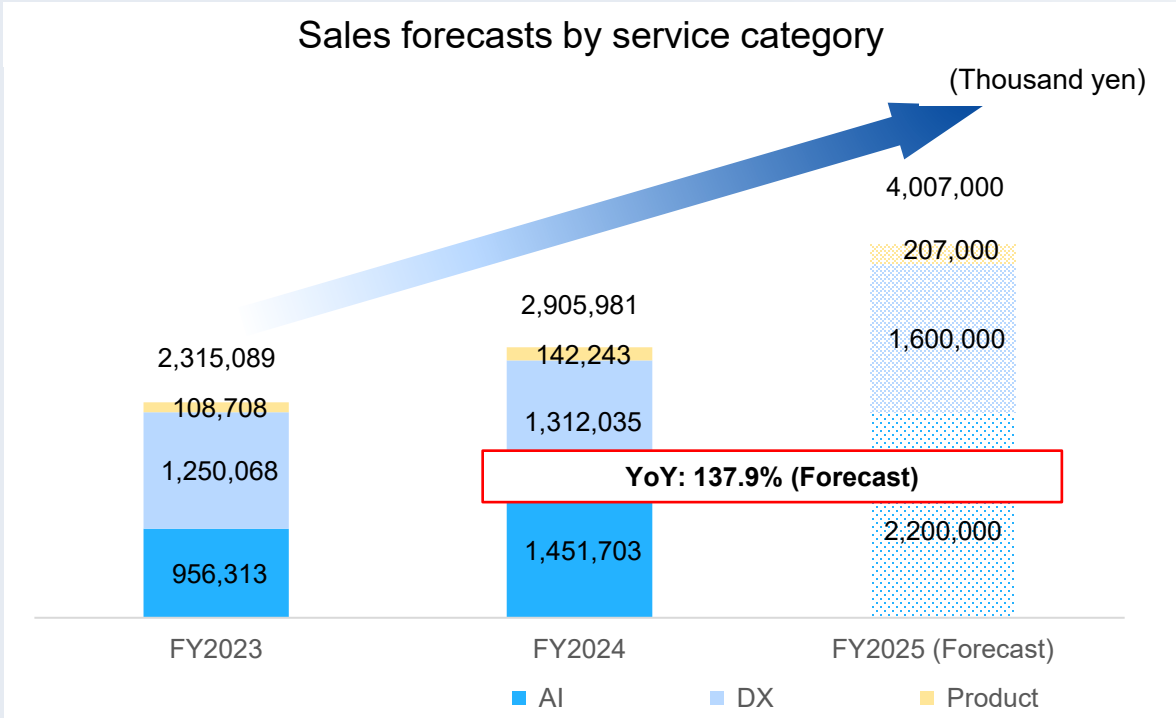
* Because the OPS Services category was discontinued from FY2024, the number of OPS projects in FY2022 and FY2023 has been allocated to the three other service categories.



FY2025 Forecast

Headwaters believes that FY2025 is a breakthrough year for AI agents and a period in which the generative AI market will continue to expand. In response to this market environment, Headwaters has positioned this year as a year of investment, in which it aims to significantly increase the volume of sales to further accelerate the growth it has been recording.

- KPI: **Sales and recruiting**
- Net sales: **Sales target of 4.0 billion yen** with year-on-year growth of 37.9%, exceeding the growth rate for FY2024.
- Recruiting: Necessary investments will be made for **a net increase of 80 employees** and a turnover rate of 10% or less.
- Sales strategy: Resources will be allocated to acquire orders for large-scale projects and strengthen business teams, as well as to implement the alliance strategy and develop new businesses for existing clients.
- Operating profit: While investments will be prioritized with a view toward the expansion of the volume of sales, operating profit **is expected to rise 6.5%**.
- Ordinary profit: Profit is expected to decrease because a gain on valuation of derivatives, which temporarily occurred in FY2024, will not be factored in the plan for FY2025.



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

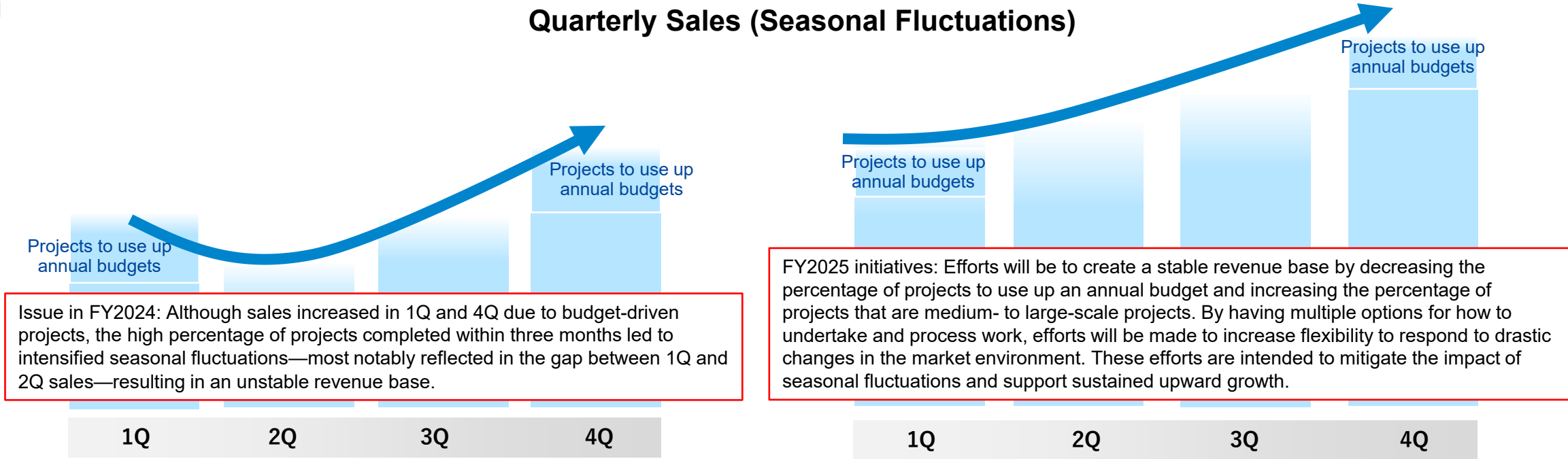


Seasonal Fluctuations in Net Sales

Headwaters' sales are forecast that usually incorporates seasonal fluctuations. Considering these fluctuations to be a management issue, Headwaters has prepared its FY2025 forecasts with an eye toward the creation of a stable revenue base.

	Net sales trend	SG&A expenses trend	Characteristics
1Q	Low	Medium	As the period will be characterized by a flood of projects, efforts will be made to control seasonal fluctuations by shifting to the acquisition of orders with a focus on medium- to large-scale projects.
2Q	Medium	High	Sales will be stronger than the level of 1Q due to the launch of large-scale projects, and SG&A expenses will increase due to the impact of progress in recruitment.
3Q	High	Very high	Sales will be high, and SG&A expenses will also be high if the recruitment situation impacts SG&A expenses and personnel expenses.
4Q	Very high	Medium	As sales are at their highest point and recruitment is decreasing, SG&A expenses will be a certain percentage of total expenses due to a steep increase in personnel expenses.

Quarterly Sales (Seasonal Fluctuations)



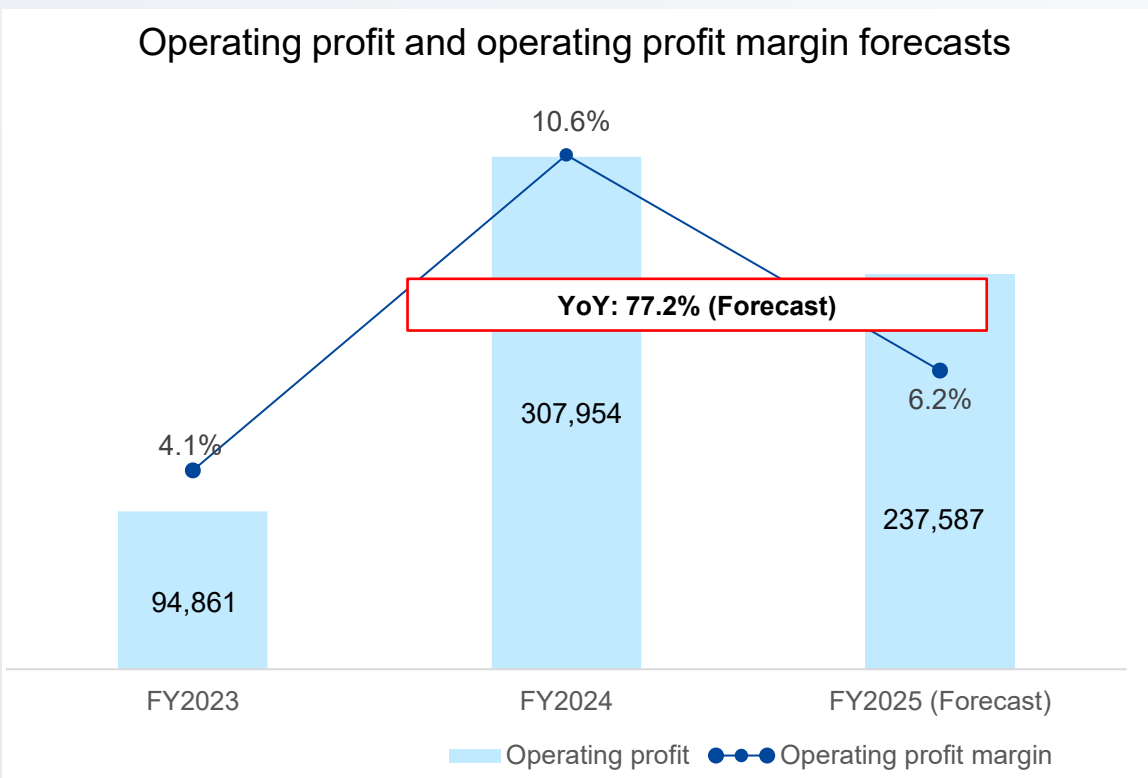
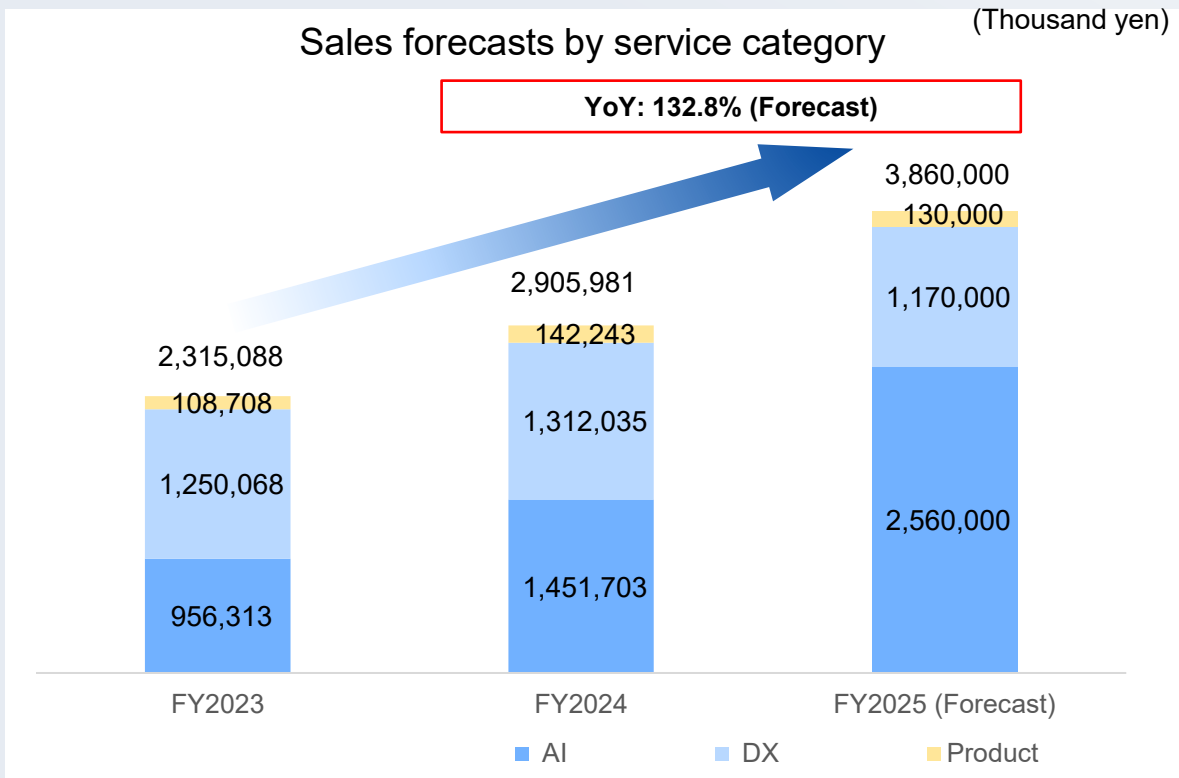


FY2025 Revenue Forecast

Headwaters has made the expansion of net sales a KPI for FY2025, while also sparing no efforts to mitigate the impact of seasonal fluctuations. It therefore projects the following revenue in FY2025.

- Net sales: Projected to increase slightly from the 3Q level because projects are growing in size and certain amount of resources will be allocated to sales activities in the next fiscal year.
- Gross profit margin: Expected to be around 46%, which is on par with 3Q
- SG&A expenses: Forecast to be around 375 million yen because, unlike in the previous fiscal year, recruitment will decrease in 3Q and increase in 4Q
- Operating profit: Operating profit margin is projected to be around 11% in 4Q because net sales and gross profit margin are forecast to be on par with 3Q while SG&A expenses are expected to be slightly high.

The final full-year forecasts are that **net sales will increase to 132.8% and operating profit will decrease to 77.2% of previous fiscal year.**



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



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

■ Timely disclosure

- ✓ Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2025 (Under Japanese GAAP)
- ✓ Financial Supplementary Materials for the Second Quarter of FY2025
- ✓ Notice Regarding Acquisition of Shares in LogTech Corporation (Making it a Consolidated Subsidiary)
- ✓ Results of Operations for the Second Quarter of FY2025

■ AI technology innovations / Services

- ✓ Headwaters Launches the Azure AI Foundry Agent Service, a Hands-on AgentOps lab Service for Companies Considering AI agents on Microsoft Azure
- ✓ Headwaters Announces Computer-Using Agent Solution Featuring Computer Operations Done by AI Agents
— Providing Task-specific Agentic RPA and Agentic Web Intended for Major Enterprises —
- ✓ Launch of the AI Agent CoE Support Service Accelerating the Use of AI Agents
— Comprehensive Support for Organizations Promoting Generative AI Strategies Within Major Enterprises—
- ✓ Launch of AI-data-driven BizOps Managed Services Using the Microsoft Fabric/Azure Databricks Platform
— Collaborative Support for the Promotion of Data-driven Management —
- ✓ Launch of the Copilot Advanced RAG Service Using SharePoint/Microsoft Fabric as a Data Source for Companies Who Have Not Been Successful Using RAG in Copilot
- ✓ Launch of the HWS Agent Camp Workshop-style Program Accelerating the Use of AI Agents by Companies
— Hosting Hands-on Hackathons Adapted to the Multiple Agent Era —



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

■ Achievements / Examples of implementation

- ✓ Headwaters Co., Ltd. Achieves a 99% Correct Answer Rate with Agentic Work Flow Featuring the Autonomous Execution of Operations by Multiple AI agents using RAG
- ✓ Six Headwaters engineers received a Microsoft Top Partner Engineer Award 2025
- ✓ Six Headwaters Teams Qualify for the NEDO Challenge, Quantum Computing "Solve Social Issues !," a NEDO Program with a Cash Prize
- ✓ Headwaters supports Daiwa Securities Group Inc. in the Operation of a Hands-on Workshop using Copilot Studio, a DX Promotion Measure
- ✓ Hyper-personalization Achieved on AI Agent Platform using Microsoft Entra ID
 - Providing A Safe and Highly Precise Customer Experience using a Zero Trust System and ID Management —
- ✓ Headwaters and Secure Inc. Jointly Develop an AI Agent Solution for Issues in the Operation of Unstaffed Stores
- ✓ Supported for the Everyone Can Make an App program of the Tokyo Metropolitan Board of Education
 - Junior High and High School Students, Future IT Human Resources, Take on the Challenge of Developing Apps using Generative AI —

■ Business alliances / Strengthening of partnerships / Notices

- ✓ Notice of Acquisition of Shares of BBD Initiative Inc., (Resulting in It Becoming an Equity-method Affiliate) and Conclusion of a Capital and Business Alliance with the Company
- ✓ Headwaters Co., Ltd. and BBD Initiative Inc. concluded a capital and business alliance agreement
 - Rebooting Industries in Japan through the Democratization of AI and Data-driven Management —
- ✓ Headwaters Fully Launches AI Agent Business Jointly with BTM
 - Accelerating the Nationwide Promotion of DX using AI Agents —

■ Health management and welfare benefits

- ✓ Headwaters Group Acquires Silver Certificating in the KENKO Investment for Health Outstanding Organizations Recognition Program for the Second Consecutive Year in Recognition of its Implementation of Health and Productivity Management



- This document contains outlooks, future plans and management goals related to Headwaters. Descriptions regarding these forward-looking statements are based on assumptions made at the current moment about future events and trends, and there is no guarantee that these assumptions are accurate. Various factors may cause actual performance to significantly differ from what is described in this document.
- The figures in this document represent consolidated figures for the entire group, including Headwaters Consulting, Headwaters Professionals and DATA IMPACT JOINT STOCK COMPANY.
- LogTech Corporation was included in the scope of consolidation in FY2025 3Q.
- Headwaters included BBD Initiative Inc. in the scope of its equity method accounting.
- In this document, numerical comparisons are presented in the following three categories.
 - **QoQ:** A comparison between the figures of the previous quarter and the current quarter
 - Comparison between figures of FY2025 2Q and FY2025 3Q
 - **YoY:** A comparison between the cumulative figures of the previous fiscal year and the current fiscal year
 - Comparison between figures of FY2024 1Q-3Q and FY2025 1Q-3Q
 - **YoY for the Quarter:** A comparison between the figures of the corresponding quarter for the previous fiscal year and the current fiscal year
 - Comparison between figures of FY2024 3Q and FY2025 3Q
- Unless otherwise specified, the financial information in this document is based on generally accepted accounting principles in Japan.
- Information regarding companies other than Headwaters is based on generally known information.