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November 14, 2025

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2025 (Under Japanese GAAP)

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 Listing: Tokyo Stock Exchange
 Securities code: 4011
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 Scheduled date to commence dividend payments: -
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the third quarter of the fiscal year ending December 31, 2025 (January 1, 2025 – September 30, 2025)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended September 30, 2025	2,702	29.4	98	(54.7)	71	(67.4)	45	(68.8)
September 30, 2024	2,087	16.9	216	156.8	218	155.1	145	171.2

Note: Comprehensive income For the nine months ended September 30, 2025: ¥43 million [down 70.2%]
 For the nine months ended September 30, 2024: ¥147 million [up 172.3%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended September 30, 2025	11.97	10.91
September 30, 2024	38.54	34.96

Note: Headwaters conducted a two-for-one common stock split on January 1, 2025. Basic earnings per share and diluted earnings per share have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2024.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
September 30, 2025	3,727	1,338	35.4
December 31, 2024	1,800	1,272	70.4

Reference: Equity As of September 30, 2025: ¥1,319 million As of December 31, 2024: ¥1,267 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended December 31, 2024	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00
Fiscal year ending December 31, 2025	-	0.00	-		
Fiscal year ending December 31, 2025 (Forecast)				0.00	0.00

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

3. Consolidated forecast for the fiscal year ending December 31, 2025 (January 1, 2025 – December 31, 2025)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	4,007	37.9	328	6.5	332	(8.4)	237	(13.1)	62.25

Note: Revisions to the most recently announced consolidated forecast: None

*** Notes**

(1) Significant changes in the scope of consolidation during the period: Yes

Newly included: LogTech Corporation, BBD Initiative Inc., Excluded: -

Note: For more information, please refer to “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Changes in significant subsidiaries during the period” on page 9 of this document.

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

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

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(4) Number of issued shares (common stock)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of September 30, 2025	3,840,144 shares
As of December 31, 2024	3,796,740 shares

(ii) Number of treasury shares at the end of the period

As of September 30, 2025	104 shares
As of December 31, 2024	84 shares

(iii) Average number of shares outstanding during the period

Nine months ended September 30, 2025	3,799,339 shares
Nine months ended September 30, 2024	3,785,065 shares

Note: Headwaters conducted a two-for-one common stock split on January 1, 2025. The total number of issued shares at the end of the period, the number of treasury shares at the end of the period and the average number of shares outstanding during the period have been calculated as if this stock split had taken place at the beginning of the fiscal year ended December 31, 2024.

* Review of attached quarterly consolidated financial statements by certified public accountants or an auditing firm: None

* Proper use of earnings forecasts, and other special matters

Forecasts and forward-looking statements in these materials are based on assumptions judged to be valid and information available to Headwaters at the time the materials were created. These materials are not promises by Headwaters regarding future performance. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to “1. Qualitative Information on Quarterly Consolidated Financial Performance (3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements” on page 4 of the attachments regarding preconditions or other related matters for the forecast shown above.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

During the first nine months of the fiscal year ending December 31, 2025 (January 1, 2025 to September 30, 2025), the Japanese economy was affected by domestic companies revising export prices, controlling costs, and rebuilding supply chains in response to the protectionist trade policies announced by the U.S. government. This also affected the IT industry in which the Headwaters Group operates. In a section of the industry, development and investment projects were cancelled or postponed. Further, companies are increasingly careful when making investment decisions, partly due to the trend in the Bank of Japan's interest rate policies, the globally rising prices of resources and raw materials, and growing geopolitical risks, in addition to persistently high prices. Due to these factors, the future of the Japanese economy has remained uncertain.

In this economic environment, workstyle changes in society as a whole have accelerated, which has greatly impacted corporate activities. Most notably, the rapid popularization of generative AI and other advanced technologies has led to progress in business process automation and streamlining, and it is now necessary for companies to transform structurally into AI-native companies.

The Headwaters Group has been reinforcing its service development and provision structure with AI technologies at its core. In addition to providing services to clients, the Group is advancing the use of AI in its internal operations to respond to rapid change. This accelerates decision making and increases the flexibility of its organizational management, strengthening the Group's ability to respond immediately to clients' needs.

In the IT industry in which the Headwaters Group operates, rapid growth is continuing because of many innovations, notably artificial intelligence (AI) and the digital transformation (DX). In particular, the emergence and evolution of generative AI have led to new ways to deal with Japan's falling working age population and other social issues. This technology has also made enormous contributions to creating new business models and promoting innovations. During the first nine months of 2025, generative AI technology continued to advance remarkably. Particularly notable progress was made in AI-driven development projects and multimodal AI processing (natural language/image/voice). New generative AI-based services are being created one after another, with issues such as processing speed, accuracy and cost having been overcome due to technological innovation. That said, the Group believes that it should continue to address the issue of how to utilize the large amount of data possessed by companies while taking advantage of the convenience of generative AI.

During the first nine months of 2025, there continued to be steady progress in the conversion of clients into loyal clients, and net sales grew steadily year on year. In the AI solutions business, demand has grown in a broad range of industries, mainly in the financial, manufacturing, and transportation and mobility industries, and multiple projects are being carried out in parallel.

The Headwaters Group divides the AI solutions business into the following three service categories.

AI Integration Services: Consulting and development for AI agents, Copilot, edge AI and other services

DX Services: Platform development, DX consulting, Azure cloud development, low-code development and other activities

Product Services: Headwaters service model and sales agent operations including cloud utilization fees

AI Integration Services

In the first nine months of 2025, the Group began to expand its lineup of GPT services for AI agents in accordance with clients' level of understanding of AI and their AI utilization phase, in addition to IoT-based edge AI projects. It has been focusing on promoting AI agent projects. As a result, the majority of new orders received are related to AI agents.

For clients with an insufficient understanding of AI agents and those who have yet to identify operations in which they can use AI agents, the Group provides HWS Agent Camp, a workshop-style program using the practical hackathon method to promote understanding of AI agents and help the clients understand the applications that AI agents can have in their work.

In the phase where clients are utilizing AI agents and their use is becoming entrenched, the Group comprehensively supports clients' organizations in charge of promoting AI through its AI Agent CoE Support Service, and the Group implements initiatives to expand the use of AI agents in the domain of existing operations.

An increasing number of clients that possess large volumes of data are inquiring about data platform projects in which AI agents further promote data utilization, and multiple projects are being implemented in parallel.

Moreover, in a situation where improving the accuracy of retrieval-augmented generation (RAG) is a significant challenge in the business use of AI agents, the Group has established a method for providing solutions to these issues and expertise in this area leveraging its top-class project record in Japan. The AI agent, which automatically executes specific tasks using AI, is autonomous, adaptable and interactive, and it has problem-solving capabilities. It has been practically used as an effective solution to social issues such as the decrease in the working-age population. The Group also uses it in its projects.

The large volume of business data possessed by clients allows advanced analysis and visualization through management on a data platform and linkage to AI agents. In conjunction with the use of AI agents, there is strong demand for data platforms from the perspective of utilization as an important technical element particularly among clients that possess their own corporate data. There are a limited number of companies that have the capacity to provide one-stop services including consulting regarding matters such as the planning and proposal of AI agents and data utilization, the designing of AI agents, and the development of the user interfaces that clients provide. On top of this, the Group has been promoting projects in a customer-centric way, including support for in-house production.

In the first nine months of 2025, sales from AI Integration Services increased 69.6% year on year to 1,765 million yen thanks to higher sales of generative AI projects.

DX Services

The Group's DX service projects include platform development for cloud services centered on Microsoft Azure, consultation for companies' DX initiatives, and low-code development to improve operational efficiency. We primarily provide services such as modernization, which entails updates and improvements to old systems using the latest technologies and methods, and support for the internalization of various processes using Microsoft Power Platform and other low-code tools. Companies' actions for DX have steadily continued since the first nine months of 2024.

In the first nine months of 2025, some projects were downsized, mainly the projects of global enterprises. However, opportunities to receive orders for multiple projects from a single client increased as a result of progress in the development of new businesses for existing clients. In addition, because the use of AI has gradually become more popular in DX Services, where it is becoming essential to implement AI technologies, sales from some projects that were previously recorded as sales from DX Services have been transitioned to sales from AI Integration Services. Consequently, DX Services sales decreased 9.5% year on year to 858 million yen.

Product Services

Product Services are operated based on two profit models that are not dependent on person-months.

In-house service model: initial setup fee plus monthly license fees for the SyncLect in-house service

Agency model: model based on other companies' services with cloud service utilization fees (collected monthly) and the purchase and sale of IoT equipment

During the first nine months of 2025, the Group pressed ahead with the development of services focused on SyncLect Generative AI, a generative AI utilization platform. At the same time, the Group discontinued its provision of services for Pocket Work Mate, a cloud-based knowledge-sharing tool, and began to focus solely on SyncLect services. As a result, Product Services sales decreased 20.6% year on year to 77 million yen.

As a result, net sales for the first nine months of 2025 increased 29.4% year on year to 2,702 million yen. Operating profit decreased 54.7% to 98 million yen, and ordinary profit decreased 67.4% to 71 million yen. Profit attributable to owners of parent decreased 68.8% to 45 million yen.

The Headwaters Group will continue to operate in a single business segment, AI Solutions, with the goal of using AI to provide an even larger lineup and higher level of services for clients.

(2) Explanation of Financial Position

Assets

Total assets at the end of the third quarter of 2025 stood at 3,727 million yen, an increase of 1,926 million yen from the end of 2024.

Current assets totaled 1,365 million yen at the end of the third quarter of 2025, a decrease of 94 million yen from the end of 2024. This was mainly due to a decrease of 276 million yen in cash and deposits, partially offset by increases of 101 million yen in accounts receivable - trade and contract assets, 24 million yen in prepaid expenses, and 42 million yen in other. Non-current assets increased 2,021 million yen from the end of 2024 to 2,361 million yen. This was mainly due to a 162 million yen increase in goodwill and a 1,910 million yen increase in shares of subsidiaries and associates.

Liabilities

Total liabilities at the end of the third quarter of 2025 stood at 2,389 million yen, an increase of 1,861 million yen from the end of 2024. This was largely due to an increase of 1,900 million yen in short-term borrowings, partially offset by a decrease of 21 million yen in accrued consumption taxes.

Net assets

Total net assets as of the end of the third quarter of 2025 resulted in 1,338 million yen, which is an increase of 65 million yen from the end of 2024. This was mainly attributable to an increase in retained earnings of 45 million yen resulting from the posting of profit attributable to owners of parent.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-looking Statements

No change has been made to the earnings forecasts announced on February 14, 2025.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	Fiscal Year 2024 (As of Dec. 31, 2024)	Third quarter of Fiscal Year 2025 (As of Sep. 30, 2025)
Assets		
Current assets		
Cash and deposits	843,233	567,144
Accounts receivable - trade and contract assets	562,870	664,414
Work in process	3,955	17,112
Prepaid expenses	48,888	73,880
Other	863	43,121
Allowance for doubtful accounts	-	(240)
Total current assets	1,459,812	1,365,433
Non-current assets		
Property, plant and equipment	40,018	40,640
Intangible assets		
Goodwill	-	162,740
Other	10,048	7,302
Total intangible assets	10,048	170,043
Investments and other assets		
Shares of subsidiaries and associates	-	1,910,146
Derivatives	161,827	127,875
Other	128,681	113,217
Total investments and other assets	290,508	2,151,240
Total non-current assets	340,576	2,361,924
Total assets	1,800,388	3,727,358
Liabilities		
Current liabilities		
Accounts payable - trade	164,122	212,588
Accounts payable - other	24,099	32,289
Short-term borrowings	-	1,900,000
Accrued expenses	117,108	141,684
Accrued consumption taxes	78,968	57,348
Income taxes payable	99,472	1,058
Contract liabilities	8,609	1,208
Deposits received	32,585	41,806
Provision for loss on orders received	2,826	-
Provision for bonuses	-	1,125
Total current liabilities	527,793	2,389,108
Non-current liabilities		
Total liabilities	527,793	2,389,108

	(Thousands of yen)	
	Fiscal Year 2024 (As of Dec. 31, 2024)	Third quarter of Fiscal Year 2025 (As of Sep. 30, 2025)
Net assets		
Shareholders' equity		
Share capital	378,338	389,261
Capital surplus	368,338	379,261
Retained earnings	503,632	549,110
Treasury shares	(227)	(227)
Total shareholders' equity	1,250,081	1,317,405
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	15,966	2,718
Foreign currency translation adjustment	1,012	(584)
Total accumulated other comprehensive income	16,979	2,133
Non-controlling interests	5,534	18,710
Total net assets	1,272,595	1,338,249
Total liabilities and net assets	1,800,388	3,727,358

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income

For the Nine-month Period

(Thousands of yen)

	First nine months of Fiscal Year 2024 (Jan. 1, 2024 – Sep. 30, 2024)	First nine months of Fiscal Year 2025 (Jan. 1, 2025 – Sep. 30, 2025)
Net sales	2,087,675	2,702,050
Cost of sales	1,187,890	1,497,199
Gross profit	899,784	1,204,850
Selling, general and administrative expenses	683,074	1,106,761
Operating profit	216,709	98,089
Non-operating income		
Interest income	98	2,195
Foreign exchange gains	1,560	1,372
Subsidy income	-	10,223
Other	63	501
Total non-operating income	1,722	14,293
Non-operating expenses		
Interest expenses	-	2,731
Refund of subsidies	-	4,572
Loss on valuation of derivatives	-	33,951
Other	125	-
Total non-operating expenses	125	41,255
Ordinary profit	218,306	71,127
Profit before income taxes	218,306	71,127
Income taxes - current	72,127	8,416
Income taxes - deferred	(1,465)	3,525
Total income taxes	70,661	11,941
Profit	147,645	59,186
Profit attributable to non-controlling interests	1,761	13,707
Profit attributable to owners of parent	145,884	45,478

Quarterly Consolidated Statement of Comprehensive Income
For the Nine-month Period

(Thousands of yen)

	First nine months of Fiscal Year 2024 (Jan. 1, 2024 – Sep. 30, 2024)	First nine months of Fiscal Year 2025 (Jan. 1, 2025 – Sep. 30, 2025)
Profit	147,645	59,186
Other comprehensive income		
Valuation difference on available-for-sale securities	-	(13,248)
Foreign currency translation adjustment	(447)	(2,129)
Total other comprehensive income	(447)	(15,377)
Comprehensive income	147,197	43,808
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	145,548	30,633
Comprehensive income attributable to non-controlling interests	1,649	13,175

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Significant Subsidiaries during the Period

During the third quarter of 2025, Headwaters acquired all shares in LogTech Corporation and made it a subsidiary. Accordingly, LogTech Corporation was included in the scope of consolidation in the third quarter of 2025.

In addition, Headwaters included BBD Initiative Inc. in the scope of its equity method accounting.

LogTech Corporation is a specified subsidiary of Headwaters.

Changes in Accounting Policies

(Application of Accounting Standard for Current Income Taxes, etc.)

Headwaters has applied Accounting Standard for Current Income Taxes (Accounting Standards Board of Japan (ASBJ) Statement No. 27, October 28, 2022; hereinafter referred to as the "Revised Accounting Standard 2022") effective from beginning of the first quarter of 2025.

The amendment to categories in which current income taxes should be recorded (taxes on other comprehensive income) follows the transitional treatment prescribed in the proviso of paragraph 20-3 of the Revised Accounting Standard 2022 and the transitional treatment prescribed in the proviso (2) of paragraph 65-2 of the Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022; hereinafter referred to as the "Revised Implementation Guidance 2022"). In the first nine months of 2025, this change in accounting policy has no impact on the quarterly consolidated financial statements.

For the amendment related to the revised accounting treatment for consolidated financial statements when gains or losses on sale of shares in subsidiaries resulting from transactions between consolidated companies were deferred for tax purposes, the Revised Implementation Guidance 2022 has been applied since the beginning of the first quarter of 2025. This change in accounting policy has been applied retrospectively, and the quarterly consolidated financial statements for the first nine months of the previous fiscal year and the consolidated financial statements for the previous fiscal year reflect the change. The change in accounting policy has no impact on the quarterly consolidated financial statements for the first nine months of the previous fiscal year or the consolidated financial statements for the previous fiscal year.

Segment Information

This information is omitted because AI Solutions are the only business of the Headwaters Group.

Consolidated Statement of Cash Flows

The quarterly consolidated statement of cash flows for the first nine months of Fiscal Year 2025 is not prepared. Depreciation for each period is as follows.

	First nine months of Fiscal Year 2024 (Jan. 1, 2024 – Sep. 30, 2024)	First nine months of Fiscal Year 2025 (Jan. 1, 2025 – Sep. 30, 2025)
Depreciation	13,470 thousand yen	18,248 thousand yen