

(English Translation)

This English translation is an abridged version of the original document in Japanese. In the event of any discrepancy, the Japanese version prevails.



## Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2022 [Japanese GAAP]

January 31, 2022

Listed company name: WOW WORLD Inc. Stock exchange listing: Tokyo  
Securities code: 2352 URL <https://www.wow-world.co.jp/>  
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Scheduled date to file securities report: February 14, 2022  
Scheduled date to commence dividend payments: —  
Preparation of supplementary materials on financial results: Yes  
Holding of financial results briefing: No

(Amounts less than one million yen are rounded down)

### 1. Consolidated Business Results for the Third Quarter of the Fiscal Year Ending March 31, 2022 (April 1, 2021 to December 31, 2021)

#### (1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year increases.)

	Net sales		EBITDA *		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine month ended										
December 31, 2021	2,108	28.6	466	29.6	301	14.9	299	9.2	167	(0.4)
December 31, 2020	1,639	19.7	360	0.9	262	(18.5)	274	(17.2)	167	(25.4)

(Note) Comprehensive income : Third quarter of the fiscal year ending March 31, 2022 ¥159 Million (-24.9%); Third quarter of the fiscal year ended March 31, 2021 ¥ 211 Million (2.0%)

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine month ended				
December 31, 2021		42.23		39.77
December 31, 2020		42.34		40.36

\* EBITDA = Operating profit + Depreciation + Amortization of goodwill + Share-based remuneration expenses

#### (2) Consolidated financial position

As of	Total assets		Net assets		Shareholders' equity ratio		Net assets per share	
	Million yen		Million yen		%		Yen	
December 31, 2021		3,026		1,621		50.3		389.35
March 31, 2021		3,237		1,813		53.8		438.87

(Note) Shareholders' equity : Third quarter of the fiscal year ending March 31, 2022 ¥ 1,522 Million; the fiscal year ending March 31, 2021 ¥ 1,743 Million

### 2. Dividends

	Dividends per share				
	End-Q1	End-Q2	End-Q3	Year-end	Annual
	Yen				
Fiscal year ended March 31, 2021	—	0.00	—	25.00	25.00
Fiscal year ending March 31, 2022	—	0.00	—	—	—
Fiscal year ending March 31, 2022 (forecast)	—	—	—	30.00	30.00

(Note) Adjustment for the most recent forecasts of dividends: None

### 3. Forecast of Consolidated Business Results for the Fiscal Year Ending March 31, 2022

(Percent figures indicate the rate of changes from the previous fiscal year)

	Net sales		EBITDA		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	2,840	20.5	570	0.8	370	(10.1)	370	(13.0)	185	(16.9)	47.03

(Note) Adjustment for the most recent earnings forecasts: Yes

\* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of specific accounting for preparing the quarterly consolidated financial statements: None

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

- a. Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
- b. Changes in accounting policies due to other reasons: Yes
- c. Changes in accounting estimates: Yes
- d. Restatement: None

(4) Number of issued shares (Common shares)

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

As of December 31, 2021	4,065,884 shares
As of March 31, 2021	4,412,400 shares

b. Number of treasury shares at the end of the period

As of December 31, 2021	155,239 shares
As of March 31, 2021	440,161 shares

c. Average number of outstanding shares during the period

As of December 31, 2021	3,957,493 shares
As of December 31, 2020	3,961,902 shares

\* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

\* Proper use of earnings forecasts, and other special matters

Forward-looking statements, including the consolidated forecasts stated in these materials, are based on information currently available to the Company and certain assumptions deemed reasonable. Results may differ materially from the consolidated forecasts due to various factors.

\* For the preconditions for business forecasts and precautions when using business forecasts, see "1. Qualitative Information on Quarterly Financial Results (3) Explanation of Future Forecast Information such as Consolidated Earnings Forecasts" on page 5 of the Attachment. Please look.

\* How to obtain supplementary explanation materials for financial results

Supplementary information on financial results will be posted on the Tokyo Stock Exchange "Timely Disclosure Information Browsing Service" and our website on February 14, 2022 (Monday).

**Attached Material**

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## 1. Qualitative information on quarterly consolidated financial results

### (1) Explanation of operating results

During the cumulative consolidated third quarter of the current fiscal year (April 1, 2021 to December 31, 2021), the economic situation in Japan remained challenging due to the impact of COVID-19, including outbreaks of variant strains. However, customers in the e-mail and digital marketing markets in which the WOW WORLD Group operates continue to digitize their approaches, and digital-related demand remained firm.

Guided by a group vision to *create a world of surprises through the power of people and technology*, the WOW WORLD Group mission is to *create pleasant surprises between companies and their customers through relationship engineering*. As we grow our businesses, we aim to create moments of *WOW* (pleasant surprises) between our customers, their customers, and those with whom we work.

Based on this new management philosophy, WOW WORLD has defined three strategic pillars for the current fiscal year: (1) engage in full-scale operations of Customer Success; (2) create group synergies; and (3) pursue further growth through M&A.

During the cumulative consolidated third quarter, we achieved significant growth in cloud services sales(\*1) with the full-scale operations of customer success. In addition, group company Connecty, Inc. developed a new cloud CDP(\*2), Connecty CDP, for which we launched joint sales activities. We released new versions of WEBCAS (our mainstay product and service) and Connecty CMS on Demand, provided by Connecty.

In terms of ESG initiatives, we contribute to the environment by conserving resources through encouraging remote work and by digitizing operations. We are also examining other work styles with an eye to the post-COVID-19 era. In response to an increasing ratio of overseas investors, we now provide information translated into English, and we are preparing to allow shareholders the opportunity to exercise voting rights electronically.

The Company has applied for listing on the Prime Market of the Tokyo Stock Exchange, Inc., and we have submitted a plan to comply with listing maintenance standards. For details, refer to *Plan for Compliance With Listing Maintenance Standards of New Market Classification (Japanese only)*, published on December 15, 2021.

Amid these circumstances, the WOW WORLD Group reported the following business results for the third quarter of the current consolidated fiscal year.

#### a. Net sales increase for 13 consecutive terms and was record high.

During the third quarter of the current consolidated cumulative period, net sales were 2,108,896 thousand yen (up 28.6% year-on-year), the 13th consecutive year of sales growth. The main reasons for this were the contribution of sales from Connecty Inc., which joined the group from October 2020, and the increase in cloud services \* 1 in the enterprise software business, which has been the main business of the past.

#### b. Cloud services grew significantly, up 25.9% year-on-year.

Cloud services, which we have been strengthening for many years, represent a revenue base that we expect to grow steadily through the so-called subscription model. During the cumulative consolidated third quarter, we launched full-scale operations of customer success, while experiencing an increased number of inquiries in connection with digital-related demand under the COVID-19 pandemic, leading to more orders and a steady build-up of monthly sales.

(Thousand yen)

	Q3 FY03/20	Q3 FY03/21	Q3 FY03/22
Cloud service sales	811,637	934,386	1,176,555
Change	+118,125	+122,749	+242,169
YoY(%)	+17.0%	+15.1%	+25.9%

- c. EBITDA increased by 29.6% year-on-year was record high.

Third quarter EBITDA rose to a record-high 466,820 thousand yen (up 29.6% year on year). This result was mainly due to the increase in cloud services sales mentioned above.

Meanwhile, we recorded an increase in personnel expenses related to increased hiring, as well as an increase in expenses related to preparations for transitioning to international accounting standards in the next fiscal year and costs for strengthening customer success initiatives. These factors and others combined to reduce the scope of profit growth; however, we absorbed the impact of these factors to record record-high profits.

As a result of these efforts, in the third quarter of the current consolidated cumulative period, net sales were 2,108,896 thousand yen (up 28.6% year-on-year), EBITDA 466,820 thousand yen (up 29.6% year-on-year), and operating profit was 301,629 thousand yen (up 14.9% year-on-year), ordinary profit 299,328 thousand yen (up 9.2% year-on-year), and Profit attributable to owners of parent of 167,133 thousand yen (down 0.4% year-on-year).

The performance of the segment is as follows.

- a. Enterprise Software

Sales for the cumulative consolidated third quarter rose by 17.1% year-on-year, mainly due to the cloud services contributions of Connecty Inc.,

WEBCAS e-mail, our mainstay email communications product, was ranked No. 1 in sales in the fiscal 2019 email broadcast package market vendor rankings in the market survey report (*ITR Market View: Email/Web Marketing Market 2021*) published by ITR CORPORATION. By sales, our market share was 35.0%. According to the forecast in said report, we are expected to hold top share (43.1%) for fiscal 2020 as well.

Gross profit margin for the cumulative consolidated third quarter improved significantly year on year, as we experienced no increases in subcontracting costs associated with large-scale projects of the type we saw in the previous fiscal year.

As a result, overall sales of this business were 1,428,418 thousand yen (up 17.1% year-on-year) and gross profit margin 68.6% (up 5.5pt year-on-year).

- b. Digital Marketing Operational Support

We achieved a significant increase in sales for the cumulative consolidated third quarter, mainly due to the contributions of Connecty Inc. as described above. On the other hand, the main customers of FUCA Inc. were easily affected by the COVID-19, and while sales increased, profits decreased due to the impact of increased costs.

As a result, overall sales of this business were 584,519 thousand yen (up 106.4% year-on-year) and gross profit margin was 23.9% (down 2.1pt year-on-year).

- c. E-commerce

This segment consists of the Babychu e-commerce site operated by wholly owned subsidiary Mamachu, Inc.

Third quarter sales for the segment decreased due to a decline in demand for apparel worn outside the home, which is the target of this e-commerce site, due to prolonged declarations of a state of emergency in Japan.

As a result, sales in the EC business were 93,616 thousand yen (down 29.2% year-on-year) and gross profit margin was 41.2% (up 1.1pt year-on-year).

## Net sales by segment and gross profit margin

		Q3 FY03/21		Q3 FY03/22	
		Amount	Composition ratio	Amount	Composition ratio
		Profit rate		Profit rate	YoY (%)
Enterprise Software	Net sales (thousand yen)	1,219,612	74.4%	1,428,418	67.7%
	Gross profit margin (%)	63.1%	—	68.6%	+17.1%
Digital Marketing Operational Support	Net sales (thousand yen)	283,192	17.3%	584,519	27.7%
	Gross profit margin (%)	26.0%	—	23.9%	+106.4%
E-commerce	Net sales (thousand yen)	132,275	8.1%	93,616	4.4%
	Gross profit margin (%)	40.1%	—	41.2%	(29.2%)
Others	Net sales (thousand yen)	4,853	0.3%	2,341	0.1%
	Gross profit margin (%)	43.6%	—	82.6%	(51.8%)
Total	Net sales (thousand yen)	1,639,935	100.0%	2,108,896	100.0%
	Gross profit margin (%)	54.7%	—	55.0%	+28.6%

## \*1 Cloud services

A form in which a user company uses software running on a server managed by a software provider (in this case, Wow World Group) as a service via the Internet. User companies can use the server software at a relatively low cost by paying a monthly usage fee without incurring server software management and licensing costs.

## \*2 CDP

It is an abbreviation for Customer Data Platform, a system that integrates, manages, and analyzes data such as customer attributes, behavioral history on websites, purchase history on EC sites, POS data offline, and location information on smartphones.

## (2) Explanation of financial position

## A) Status of assets, liabilities and net assets

Total assets at the end of the Third quarter of the current consolidated fiscal year decreased by 211,194 thousand yen from the end of the previous consolidated fiscal year to 3,026,773 thousand yen (down 6.5% from the end of the previous consolidated fiscal year).

Current assets decreased by 333,286 thousand yen due to a decrease of 467,978 thousand yen in cash and deposits compared to the end of the previous consolidated fiscal year.

Non-current assets increased by 122,091 thousand yen due to an increase of 52,167 thousand yen in Property, plant and equipment and an increase of 96,391 thousand yen in intangible fixed assets and a decrease of 26,467 thousand yen in investment and other assets compared to the end of the previous consolidated fiscal year.

Total liabilities at the end of the third quarter of the current consolidated fiscal year decreased by 19,097 thousand yen from the end of the previous consolidated fiscal year to 1,405,703 thousand yen (down 1.3% from the end of the previous consolidated fiscal year).

Current liabilities increased by 102,477 thousand yen compared to the end of the previous consolidated fiscal year due to a decrease of 47,785 thousand yen in provision for loss on order received and a decrease of 71,244 thousand yen in Income taxes payable and an increase of 295,900 thousand yen in contract liability.

Non-current liabilities decreased by 121,574 thousand yen due to a decrease of 114,696 thousand yen in long-term borrowings compared to the end of the previous consolidated fiscal year.

Total net assets at the end of the third quarter of the current consolidated fiscal year decreased by 192,097 thousand yen from the end of the previous consolidated fiscal year to 1,621,043 thousand yen (down 10.6% from the end of the previous consolidated fiscal year). This was due to the fact that while net income attributable to owners of the parent was 167,133 thousand yen, and due to a decrease of 153,902 thousand yen in capital surplus with the cancellation of treasury stock and due to a decrease of 92,604 thousand yen in dividend of surplus. Also, this was due to a decrease of 163,660 thousand yen in Balance of retained earnings at the beginning of the period and due to a decrease of 8,729 thousand yen in the balance of non-controlling interests at the beginning of the period with the application of the "Accounting Standard for Revenue Recognition" from the beginning of the first quarter of the current consolidated accounting period.

## B) Cash flow status

The balance of cash and cash equivalents (hereinafter referred to as "funds") at the end of the third quarter of the current consolidated fiscal year decreased by 399,715 thousand yen from the end of the previous consolidated fiscal year to 870,726 thousand yen (31.5% decrease compared to the end of the previous consolidated fiscal year).

The status of each cash flow and its main causes are as follows.

## (Cash flows from operating activities)

Funds obtained as a result of operating activities during the third quarter of the current consolidated cumulative period were 213,035 thousand yen (during the same quarter of the previous year, of 227,369 thousand yen).

The main factors for the increase in funds were net income before tax adjustment of 297,223 thousand yen. The main factors for the decrease in funds were the increase in trade receivables of 120,414 thousand yen.

## (Cash flows from investing activities)

Funds paid as a result of investment activities during the third quarter of the current consolidated cumulative period were 263,871 thousand yen (during the same quarter of the previous year, 430,460 thousand yen).

The factors behind the decrease in funds were the expenditure of 196,791 thousand yen for the acquisition of intangible fixed assets.

## (Cash flows from financing activities)

Funds paid as a result of financial activities during the third quarter of the current consolidated cumulative period were 348,879 thousand yen (during the consolidated cumulative period of the same quarter of the previous year of 393,209 thousand yen).

The factors behind the decrease in funds were expenditures for treasury stock acquisition of 132,529 thousand yen and expenditures for repayments of long-term borrowings of 114,419 thousand yen.

## (3) Explanation of consolidated earnings forecasts and other forward-looking statements

We revised our full-year earnings forecast for the fiscal year ending March 31, 2022, published previously on May 11, 2021. Although demand remains firm due to the advancements in customer transition to digital approaches, we revised our forecast based on performance through the third quarter of the current consolidated cumulative period and future trends in the market environment surrounding our businesses.

For details, refer to *the Notice Concerning Revision of Full-year Earnings Forecasts (Japanese only)*, published today, January 31, 2022.

## 2. Quarterly consolidated financial statements and significant notes thereto

## (1) Quarterly consolidated balance sheet

(Thousand yen)

	As of March 31, 2021	As of December 31, 2021
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	1,183,336	715,358
Notes receivable – trade, accounts receivable – trade and contract assets	318,658	453,283
Merchandise and Finished goods	12,094	13,988
Work in process	86,907	1,007
Supplies	1,210	1,180
Deposits paid	87,117	156,068
Others	54,242	69,393
<b>Total current assets</b>	<b>1,743,566</b>	<b>1,410,280</b>
<b>Non-current assets</b>		
Property, plant and equipment	128,317	180,484
<b>Intangible assets</b>		
Goodwill	520,350	479,270
Software	281,484	468,408
Others	128,224	78,771
<b>Total intangible assets</b>	<b>930,058</b>	<b>1,026,450</b>
Investments and other assets		
Investment securities	272,196	231,515
Deferred tax assets	91,453	106,422
Others	72,375	71,620
<b>Total investments and other assets</b>	<b>436,025</b>	<b>409,558</b>
<b>Total non-current assets</b>	<b>1,494,401</b>	<b>1,616,492</b>
<b>Total assets</b>	<b>3,237,968</b>	<b>3,026,773</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable – trade	40,220	55,082
Current portion of long-term borrowings	159,167	159,444
Income taxes payable	73,373	2,128
Deposits received	12,498	30,999
Provision for loss on order received	47,785	–
Provision for bonuses	59,048	25,868
Contract liabilities	–	295,900
Others	245,984	171,133
<b>Total Current Liabilities</b>	<b>638,080</b>	<b>740,557</b>
<b>Non-current liabilities</b>		
Provision for share-based remuneration	49,774	51,630
Long-term borrowings	703,225	588,529
Long-term unearned revenue	5,322	–
Provision for shareholder benefit program	5,476	1,976
Asset retirement obligations	22,949	23,036
<b>Total Non-current liabilities</b>	<b>786,747</b>	<b>665,172</b>
<b>Total liabilities</b>	<b>1,424,827</b>	<b>1,405,730</b>

(Thousand yen)

	As of March 31, 2021	As of December 31, 2021
Net assets		
Shareholders' equity		
Share capital	322,420	322,420
Capital surplus	392,054	238,152
Retained earnings	1,269,342	1,171,811
Treasury shares	(307,139)	(260,495)
Total Shareholders' equity	1,676,678	1,471,888
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	66,612	50,732
Total accumulated other comprehensive income	66,612	50,732
Share acquisition rights	52,630	82,139
Non-controlling interests	17,219	16,282
Total net assets	1,813,140	1,621,043
Total liabilities and net assets	3,237,968	3,026,773

- (2) Quarterly consolidated statements of income and comprehensive income  
 (Quarterly consolidated statement of income)  
 (Third quarter consolidated cumulative period)

(Thousand yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Net sales	1,639,935	2,108,896
Cost of sales	742,144	948,477
Gross profit	897,791	1,160,418
Selling, general and administrative expenses	635,285	858,788
Operating profit	262,506	301,629
Non-operating income		
Interest income	118	6
Dividend income	927	871
Gain on valuation of compound financial instruments	2,116	—
Share of profit of entities accounted for using equity method	2,570	—
Gain on forfeiture of unclaimed dividends	176	216
Subsidy income	14,641	4,269
Others	2,559	1,548
Total Non-operating income	23,111	6,912
Non-operating expenses		
Commission expenses	9,951	1,512
Interest expenses	1,456	5,174
Share of loss of entities accounted for using equity Method	—	2,404
Miscellaneous loss	—	123
Others	43	—
Total Non-operating expenses	11,452	9,214
Ordinary profit	274,165	299,328
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	—	1,079
Total Extraordinary income	—	1,079
Extraordinary losses		
Loss on retirement of non-current assets	128	3,184
Loss on valuation of investment securities	1,523	—
Total extraordinary losses	1,651	3,184
Profit before income taxes	272,513	297,223
Income taxes – current	76,131	56,401
Income taxes – deferred	21,168	65,895
Total income taxes	97,299	122,296
Profit	175,214	174,926
Loss attributable to non-controlling interests	7,451	7,792
Profit attributable to owners of parent	167,762	167,133

(Quarterly consolidated statement of comprehensive income)  
 (Third quarter consolidated cumulative period)

(Thousand yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
Profit	175,214	174,926
Other comprehensive income		
Valuation difference on available-for-sale securities	36,542	(15,880)
Total other comprehensive income	36,542	(15,880)
Comprehensive income	211,756	159,045
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	204,305	151,252
Comprehensive income attributable to non-controlling interests	7,451	7,792

## (3) Quarterly consolidated statements of cash flows

(Thousand yen)

	Nine months ended December 31, 2020	Nine months ended December 31, 2021
<b>Cash flows from operating activities</b>		
Profit before income taxes	272,513	297,223
Depreciation	50,427	87,399
Amortization of goodwill	16,623	41,080
Share-based remuneration expenses	30,729	36,710
Increase (decrease) in provision for bonuses	(30,728)	(33,180)
Increase (decrease) in provision for shareholder benefit program	(1,894)	(3,500)
Interest and dividend income	(1,045)	(877)
Increase (decrease) in provision for share-based remuneration	12,737	10,269
Increase (decrease) in provision for loss on order received	7,046	(47,785)
Subsidy income	(14,641)	(4,269)
Interest expenses	1,456	5,174
Share of loss (profit) of entities accounted for using equity method	(2,570)	2,404
Loss (gain) on valuation of compound financial instruments	(2,116)	—
Loss (gain) on sales of shares of subsidiaries and associates	—	(1,079)
Loss (gain) on valuation of investment securities	1,523	—
Loss on retirement of non-current assets	128	3,184
Commission expenses	6,858	1,512
Decrease (increase) in trade receivables	43,700	(120,414)
Decrease (increase) in inventories	9,148	65,020
Increase (decrease) in trade payables	(4,060)	14,862
Decrease (increase) in other current assets	(17,069)	(14)
Decrease (increase) in other non-current assets	(589)	754
Increase (decrease) in other current liabilities	(16,388)	(11,058)
Increase (decrease) in other non-current liabilities	(1,179)	—
Others	74	87
Subtotal	360,683	343,504
Interest and dividends received	1,045	877
Proceeds from subsidy income	14,641	4,269
Interest paid	(1,664)	(4,942)
Income taxes paid	(147,336)	(130,673)
Net cash provided by (used in) operating activities	227,369	213,035
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(20,088)	(85,773)
Purchase of intangible assets	(104,233)	(196,791)
Proceeds from redemption of investment securities	5,430	5,000
Proceeds from sales of shares of subsidiaries and associates	—	13,693
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(311,668)	—
Others	100	—
Net cash provided by (used in) investing activities	(430,460)	(263,871)
<b>Cash flows from financing activities</b>		
Proceeds from long-term borrowings	500,000	—
Repayments of long-term borrowings	(17,620)	(114,419)
Purchase of treasury shares	(192)	(133,529)
Proceeds from issuance of share acquisition rights	3,014	—
Dividends paid	(91,992)	(100,931)
Net cash provided by (used in) financing activities	393,209	(348,879)
Net increase (decrease) in cash and cash equivalents	190,118	(399,715)
Cash and cash equivalents at beginning of period	983,223	1,270,442
Cash and cash equivalents at end of period	1,173,341	870,726

(4) Notes to the quarterly consolidated financial statements

(Notes on premise of going concern)

Not applicable.

(Changes in accounting policies)

(Adoption of revenue recognition accounting standard)

At the beginning of the current consolidated first quarter, we adopted Accounting Standard for Revenue Recognition (ASBJ Statement No.29, March 31, 2020) ("Revenue Recognition Standard," below). With the adoption of this standard, the company now recognizes revenue when the control of promised goods or services is transferred to the customer in the amount expected to be received in exchange for said goods or services.

In adopting the change in question, we follow the transitional treatment as prescribed in the proviso of Paragraph 84 of the Revenue Recognition Standard. The cumulative effect of applying the new accounting policy retrospectively for periods prior to the beginning of the first quarter of the current consolidated fiscal year has been added to or deducted from retained earnings at the beginning of the first quarter of the current consolidated fiscal year, and the new accounting policy has been applied beginning with the relevant beginning balance.

As a result, net sales for the third quarter of the current fiscal year increased by 76,174 thousand yen, cost of sales increased by 17,023 thousand yen, and operating profit, ordinary profit, and profit before income taxes each increased by 59,150 thousand yen. In addition, the balance of retained earnings at the beginning of the current fiscal year decreased by 163,660 thousand yen and the balance of non-controlling interests at the beginning of the current fiscal year decreased by 8,729 thousand yen.

We are displaying "Notes and accounts receivable – trade", which was presented as a current asset in the consolidated balance sheet of the previous consolidated fiscal year, in "Notes and accounts receivable – trade" and "Contract assets" since the first quarter of the current consolidated fiscal year due to the application of the Revenue Recognition Standard. Also, we are displaying "unearned revenue" that was included in "others" of "current liabilities" and "Long-term unearned revenue" displayed in "fixed liabilities" as "contract liability" of "current liabilities". In addition, we have not reclassified the previous consolidated fiscal year using the new presentation method in accordance with the transitional handling specified in Section 89-2 of Revenue Recognition Standard.

(Adoption Accounting Standard for Fair Value Measurement)

We adopted Accounting Standard for Fair Value Measurement (ASBJ Statement No.30, July 4, 2019) ("Fair Value Measurement Standard," below) as of the beginning of the first quarter of the current consolidated fiscal year. In accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), we will apply the new accounting policy provided in Fair Value Measurement Standard prospectively. The adoption of this accounting standard will have no impact on quarter consolidated financial statements.

(Accounting policy changes that are difficult to distinguish from changes in accounting estimates)

The WOW WORLD Group previously used the declining-balance method for the depreciation of certain property, plant and equipment. Beginning with the current fiscal year, the group will use the straight-line depreciation method for all property, plant and equipment.

Our cloud services and other service provider businesses have become a more important component of the group with our provision of CMS cloud services via Connecty Inc. (added as a subsidiary in the previous fiscal year) and various measures provided in our medium-term management plan, formulated in the previous fiscal year. Accordingly, we conducted a review of the actual state of our property, plant and equipment. As a result, we confirmed that the assets in question are being used in a stable manner over their respective useful lifetimes, and that with the adoption of the new Revenue Recognition Standard, profits will be earned evenly over the relevant contract periods. Therefore, we have determined that changing to the straight-line depreciation method, which recognizes expenses evenly over the useful life of the asset in question, more appropriately reflects the economic reality.

The impact of this change on the quarterly consolidated financial statements for the third quarter of the current consolidated fiscal year is minimal.

(Notes on significant changes in the amount of shareholders' equity)

(Cancellation of treasury stock)

On September 17, 2021, we canceled 292,716 shares of treasury stock in accordance with the provisions of Article 178 of the Companies Act in the resolution of the Board of Directors held on July 30, 2021. Also, On October 29, 2021, we canceled 53,800 shares of treasury stock in accordance with the provisions of Article 178 of the Companies Act in the resolution of the Board of Directors held on October 15, 2021.

As a result, capital surplus and treasury stock decreased by 270,266 thousand yen, respectively, during the third quarter of the current consolidated fiscal year.

(Disposal of treasury shares via third-party allocation)

In a resolution of the Board of Directors on July 30, 2021, the Company resolved to dispose of treasury stock by third-party allotment in connection with the extension of the share-granting ESOP trust, and on September 2, 2021, The Master Trust Bank of Japan, Ltd. has acquired the shares of the Company. The Company's shares remaining in the trust are recorded as treasury stock. As a result, capital surplus and treasury stock increased by 104,221 thousand yen, respectively.

(Purchase of treasury stock)

During the third quarter of the current consolidated fiscal year, we acquired 53,800 shares and 99,858 thousand yen of treasury stock based on the resolution of the Board of Directors held on August 26, 2021. Also, we acquired 21,900 shares and 32,743 thousand yen of treasury stock based on the resolution of the Board of Directors held on December 10, 2021.

As a result of the cancellation, acquisition and disposal of treasury stock including the above, capital surplus was 238,152 thousand yen and treasury stock was 260,495 thousand yen at the end of the third quarter fiscal year.