Together for Value

BBS

Business Brain Showa-Ota Inc.

Financial Results Briefing for the Fiscal Year Ended March 2023

May 19, 2023

Event Summary

[Company Name]	Business Brain Showa-Ota Inc.
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[Event Language]	JPN
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[Venue]	Kabutocho Heiwa Building 2F, 3-3 Kabutocho Nihonbashi, Chuo-ku, Tokyo 103-0026 (Hosted by The Securities Analysts Association of Japan)
[Venue Size]	145 m^2
[Participants]	20
[Number of Speakers]	3 Kazuhiro Komiya — President and CEO Hitoshi Uehara — Senior Executive Officer, CFO, CHRO Yukinori Okada — Executive Director, Corporate Planning Dept., Administration Div.

Presentation

Moderator: It is now time to begin the financial results briefing of Business Brain Showa-Ota Inc. for the fiscal year ended March 31, 2023. First, I would like to introduce three of today's speakers.

First, Mr. Kazuhiro Komiya, President and CEO.

Komiya: My name is Komiya. Thank you for joining us today.

Moderator: Next, Mr. Hitoshi Uehara, Senior Executive Officer, CFO, CHRO.

Uehara: I am Uehara. Thank you for joining us today.

Moderator: Next, Mr. Yukinori Okada, Executive Director, Corporate Planning Department, Administration Division.

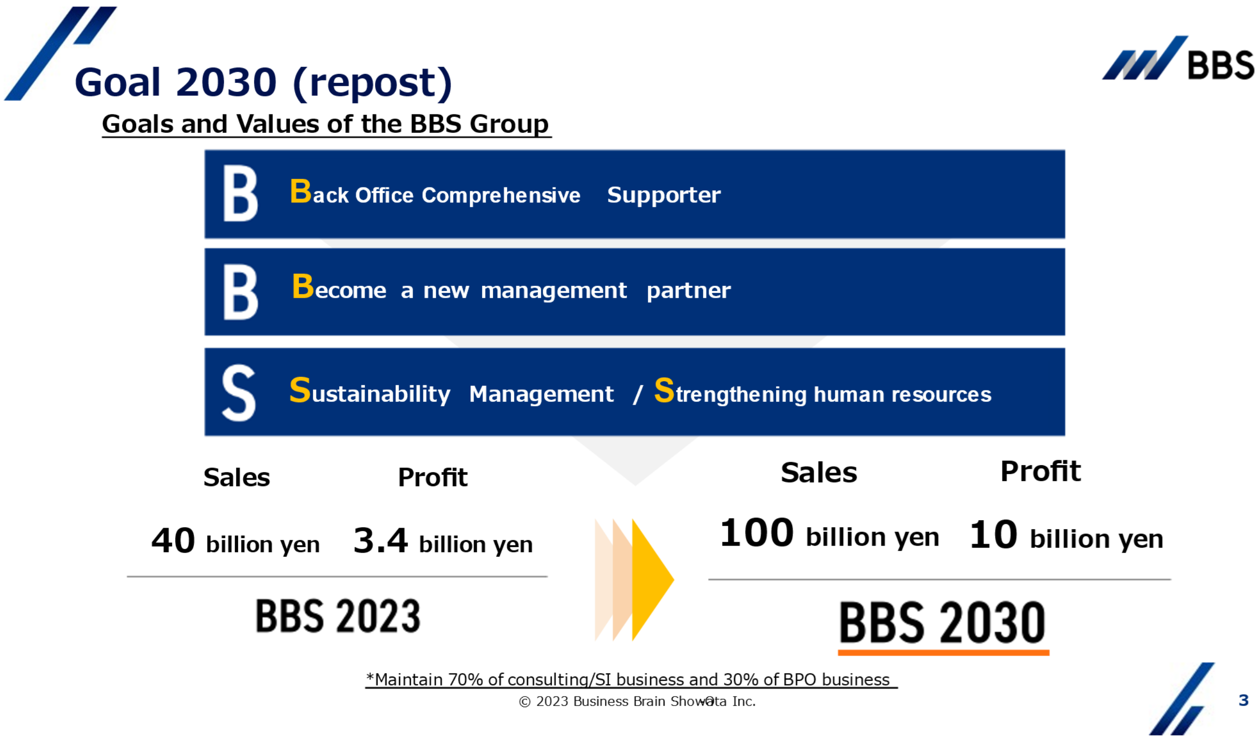
Okada: I am Okada. Thank you for joining us today.

Moderator: President Komiya and Senior Executive Officer Uehara will give the presentation. We will have time for questions and answers afterwards.

President Komiya, please start.

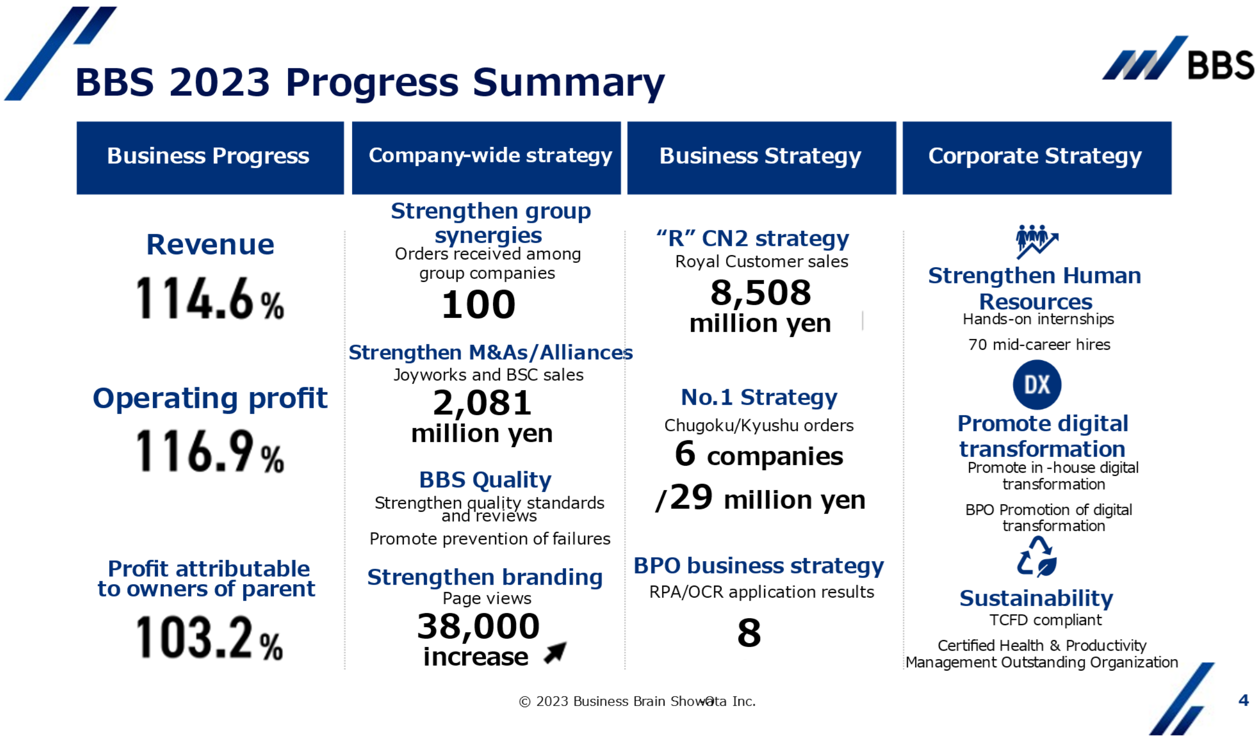
Komiya: Hello, everyone. I am President Komiya. Thank you for taking the time to join us despite the weather.

I will report on the progress of BBS2023, our medium-term management plan announced in May the year before last, then Senior Executive Officer Uehara will give a detailed explanation of the financial results.



We, the BBS Group, have set a challenging goal of JPY100 billion in sales and JPY10 billion in profit by 2030, and as a step toward reaching this goal, we are promoting a three-year medium-term management plan that calls for JPY40 billion in sales and JPY3.4 billion in profit in FY2023.

Our goals for 2030 are as follows: establishing a firm position as a comprehensive back-office supporter of companies; becoming a partner for our customers by implementing new management policies that match new work styles and new technologies; focusing on sustainability management and strengthening human resources to contribute broadly to society. These are the three pillars of our daily activities.

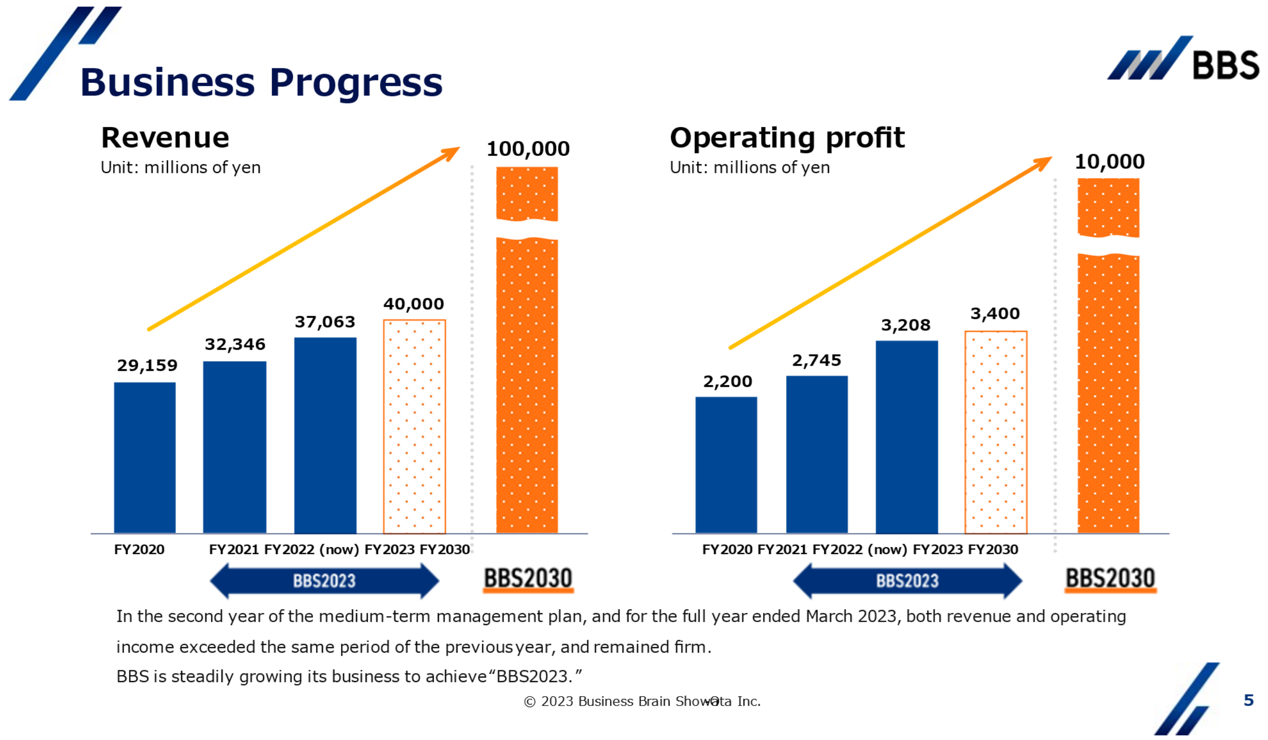


This is a summary of our activities under the medium-term management plan BBS2023.

As you can see, revenue and profit exceeded the plan. Regarding company-wide strategies, group synergies and M&A are showing good results.

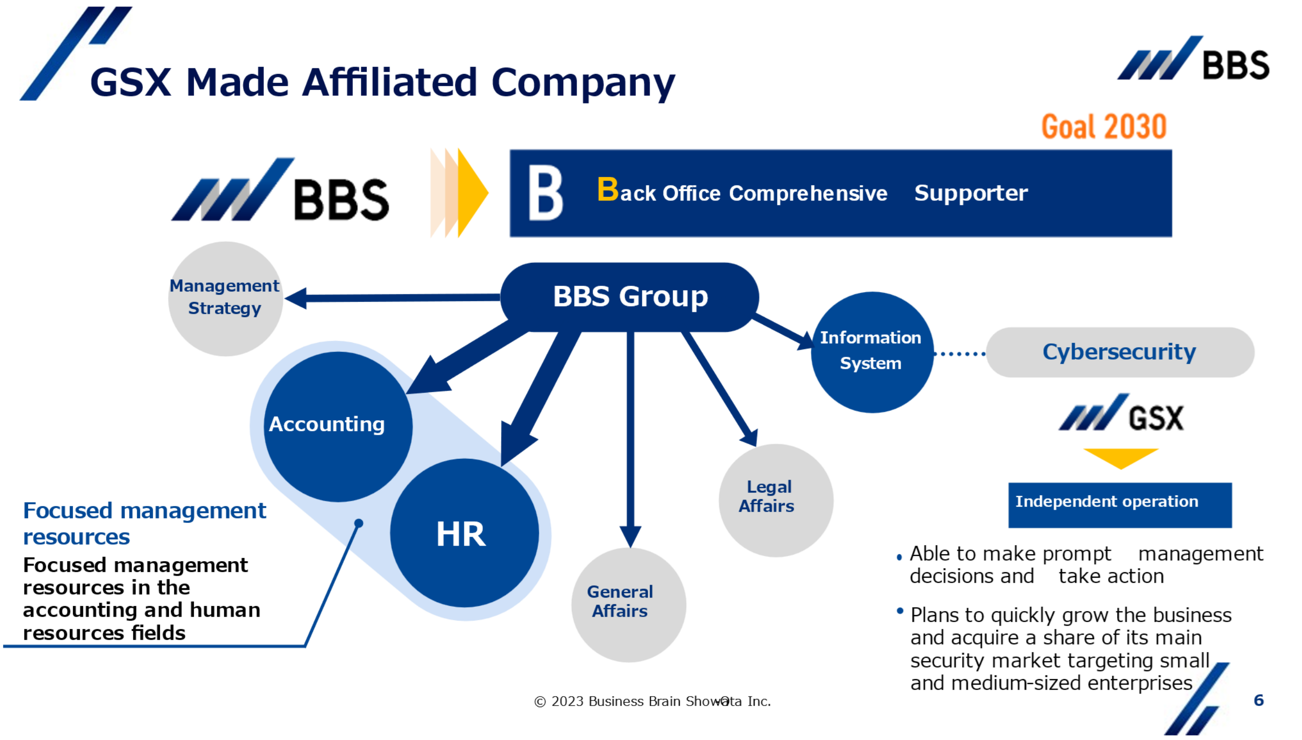
In terms of business strategy, the "R" CN2 Strategy expanded royal customer transactions, while the No. 1 Strategy and BPO business strategy also achieved results.

Our corporate strategy is also gradually producing results, and we will further accelerate our activities to build up our track record.



For the fiscal year ended March 31, 2023, sales revenue for H1 was JPY37.063 billion and operating income was JPY3.208 billion, both of which exceeded our initial forecasts.

If we exclude the impact of the transition of our consolidated subsidiary Global Security Experts, referred to as GSX below, to an affiliated company, which we announced last week, we believe that both revenue and operating profit are sufficient to meet our initial targets of JPY40 billion in revenue and JPY3.4 billion in operating profit for the fiscal year ending March 31, 2024.



Here we would like to explain that last week we sold our shares in GSX and moved it from a consolidated subsidiary to an affiliated company accounted for by the equity method.

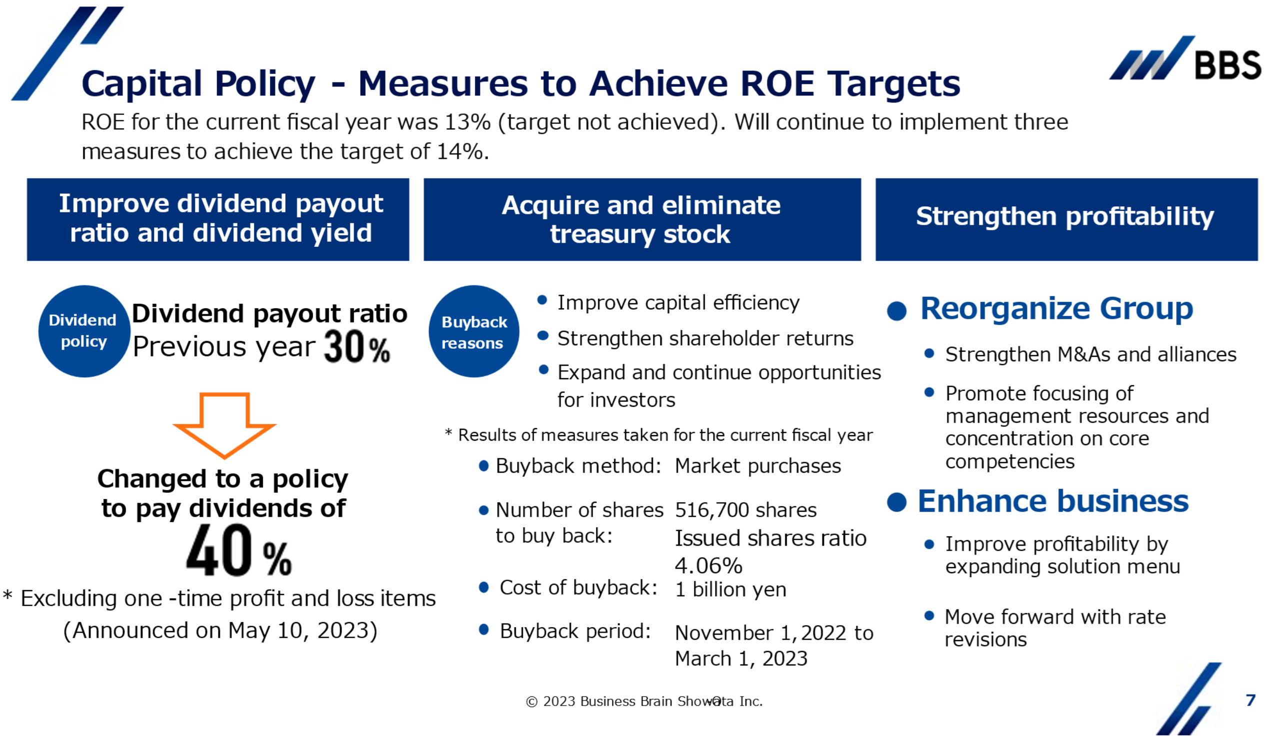
BBS has set a goal for 2030 to become a comprehensive back office supporter of companies. Back-office operations include management strategy, accounting, human resources, general affairs, legal affairs, information systems, and cyber security, and we ultimately want to become a group that can support all of these operations.

However, the reality is that it is difficult to cover all these functions with the current BBS resources. Therefore, we wanted to first concentrate our management resources in the areas of accounting and human resources, where we are the strongest. However, GSX's cybersecurity business is an important area of back-office operations and is therefore essential to achieving the targets of Goal 2030.

On the other hand, GSX has become a company that can grow independently without the support of its parent company, as it did when it went public.

Considering these circumstances, we believed that the best option for GSX's and by extension the BBS Group’s future growth is to reduce our equity stake in GSX and turn it into an affiliated company, while maintaining synergies with the BBS Group and increasing the degree of management freedom.

The security market for small and midsize companies, which is GSX's main focus, is currently a blue ocean with no major competition. In this environment, it is important to quickly expand business and seize market share. I believe that the transition to affiliated company will also prove effective as it will allow rapid management decision-making.



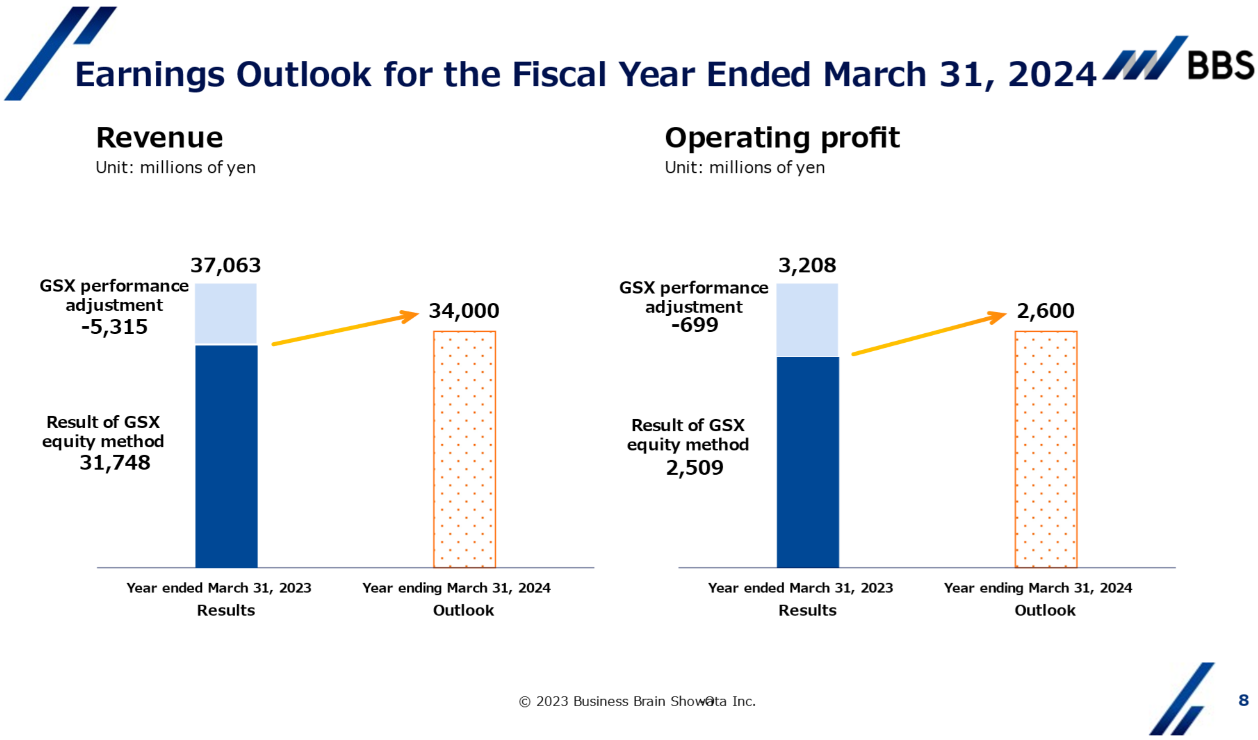
The next page explains our capital policy.

We previously set our ROE target at 10%, but in order to maintain financial stability and efficient management, we have set our ROE target at 14% beginning in FY2022. To achieve this goal, we first repurchased JPY1 billion, or 6.32% of our outstanding shares from November 1 of last year to March 1 of this year.

The repurchase was originally scheduled to take about one year, but the process went smoothly and we were able to acquire the planned JPY1 billion in about four months.

Last week, the company also announced a new dividend policy, increasing its dividend payout ratio to 40%, excluding one-time P&L items such as the gain from the recent sale of GSX shares.

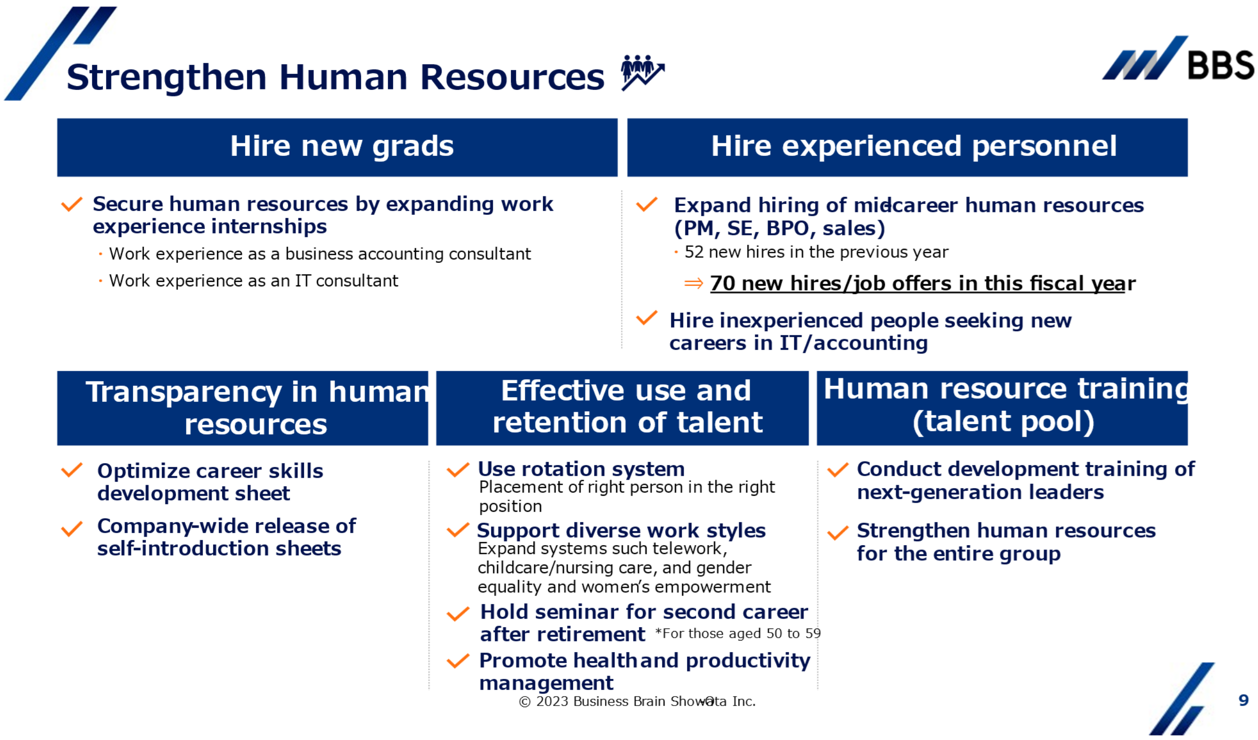
Going forward, we will strive to further strengthen profitability and increase ROE by reorganizing the group, through measures like the enhancement of M&A alliances, and by strengthening our businesses, for example through the expansion of our solutions menu.



This is the forecast for the fiscal year ending March 31, 2024.

As I mentioned earlier, we will sell our shares in GSX, a consolidated subsidiary, and it will become an equity method affiliate, so GSX's revenue and operating profit will not be aggregated in our consolidated income statement for the fiscal year ending March 31, 2024, and our share of GSX's net profit will be aggregated in our profit before taxes.

Uehara will explain the details later, but our forecast for this fiscal year is JPY34 billion in revenue and JPY2.6 billion in operating profit. Both of these forecasted values exceed the previous year's results, which were compiled under the same conditions.



Next, I would like to discuss the most important theme for the BBS Group to generate profits: the strengthening of human resources.

The Group is working on various measures to encourage both new graduates and experienced workers to join the Group and play an active role. We will continue our efforts to support both reskilling and work styles by expanding systems that can respond to changes in life stages and the social environment, as well as to skill development such as post-employment training and training in various fields.

Strengthen M&As/Alliances

Exponential growth	Increase corporate value

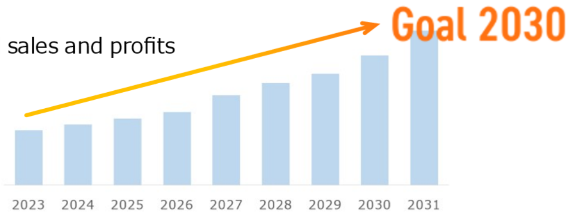
Achieving Goal 2030
Aim for discontinuous growth to achieve our target of 100 billion in sales in FY2030

Secure human resources
The depletion of the talent pool across the industry has become a major issue, and it is urgent to secure talent for growth

Appeal to corporate value
In addition to sales and profits, increase our value as a company and increase the trust of our stakeholders.

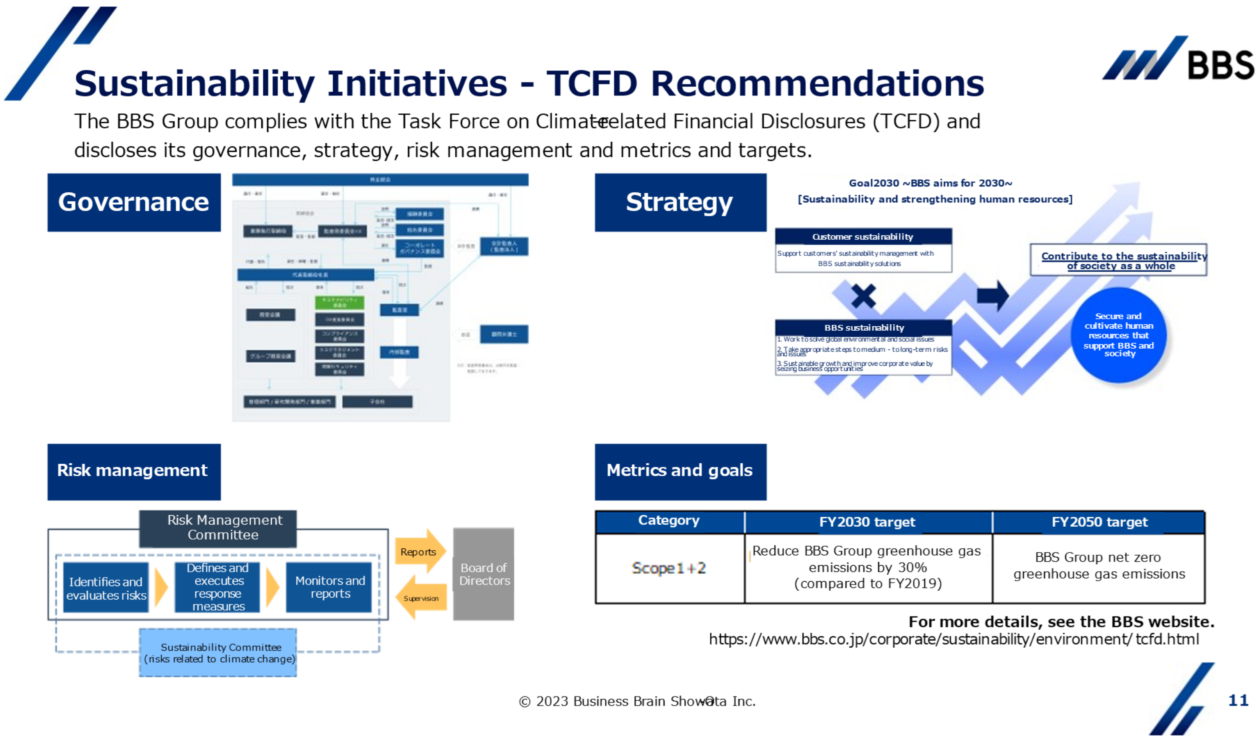
Continue to promote strengthening of alliances
BSC made Group company in April.
Continue to promote collaboration with other companies to further improve the corporate value.

Non-organic strategy
Use corporate M&As to expand sales and profits



Next, I would like to discuss our strategy for M&A/alliances, which should lead to rapid progress.

In order to achieve JPY100 billion in revenue in FY2030, we recognize that large-scale alliances, including M&A, are necessary. It is critical for us to secure human resources and expand our business partners in order to achieve dramatic growth, and we are actively seeking alliances with companies that agree with our policies and strategies.



Our sustainability initiatives are explained next.

The BBS Group has established a Sustainability Committee, a transversal organization, to oversee related activities. In addition to its policy on climate change, the BBS Group has now disclosed its governance, strategy, risk management, indicators and targets in accordance with the Task Force on Climate-related Financial Disclosure, or TCFD.

Initiatives for TCFD Recommendations

BBS Group's climate -related risks and opportunities and their financial impact

Type of risk or opportunity			Description of risk and opportunity
Risk	Transitory	Policy/legislation	[Strengthening of environmental laws and administrative environmental policies] Increase in outsourcing costs due to decarbonization measures by contractors
	Physical	Acute	[Damage to company offices] Lost sales opportunities and decreased sales due to the suspension of sales activities due to disasters at offices
			[Damage to business partners and suppliers] Suspension or downsizing of business due to damage to business partners or suppliers

* The above table is an excerpt of items that have a large financial impact.

For more details, visit the BBS website.
https://www.bbs.co.jp/corporate/sustainability/environment/tcfd.html

Examples of the types of disclosed climate-related risks and opportunities that have significant financial impact are provided as examples.

We assume a high risk of increased outsourcing costs due to the decarbonization efforts of subcontractors resulting from the strengthening of environmental laws and government environmental policies and with regard to physical risks, a high risk of suspension of business due to damage to our own sites or those of our business partners. We will formulate specific measures to reduce the financial impact.

That is all for the progress of the medium-term management plan.

I would like to conclude my presentation with a few topics.

Our company has recently been certified as a Sports Yell Company by the Japan Sports Agency.

We believe that this is a result of the recognition of our declaration of health management and the health promotion activities developed for our employees. We will continue to promote activities to improve the health of our employees.

In addition, we have been certified as an outstanding organization for health and productivity management for the second year in a row, since we had already obtained that certification the previous year. We will continue to make improvements toward a comfortable work environment.

That is all from me. Next, Uehara will provide an overview of our financial results. Thank you very much.

Revision of the Statement of Accounts

(announced May 18, 2023)

BBS

1. Reason and details of the revision

Regarding the "Statement of Accounts for the Fiscal Year Ended March 31, 2023 [IFRS] (Consolidated)" released on April 28, 2023, BBS decided on May 10,2023 to sell shares of its subsidiary, as announced in the "Notice of Partial Sale of Shares in a Consolidated Subsidiary" and other documents released on the same day. Due to the decision to sell shares of the subsidiary, there are items that should be revised regarding the accounting treatment of income tax expenses and deferred tax assets of BBS.

1. Adjustment amount

As a result of this revision, "Income tax expenses" will increase by 43 million yen and "Deferred tax assets" will decrease by the same amount.

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Uehara: Hello. I am Uehara. I would like to present an overview of the financial results for the fiscal year ended March 31, 2023.

First, I would like to briefly explain the revisions to the summary of accounts for the fiscal year ended March 31, 2023 that we announced yesterday.

As you can see, we sold our shares in GSX on May 10, and as a result, we had to make some revisions to our financial results for the year ended on March 31.

Content-wise, in accounting terms, there is a book value on a consolidated basis and a book value on a non-consolidated basis and we retroactively recognized the tax effect on the difference.

This may sound a bit technical, but when preparing consolidated financial statements, the amount of profit recorded by a consolidated subsidiary in the past corresponds to the increased amount of profit realized by our investment in that subsidiary.

Since this profit is subject to taxes, unpaid taxes on this profit normally have to be recorded. However, in reality, the shares of this subsidiary were not expected to be sold, so the accounting standards did not require recognition of this accrued tax, since it is not to be incurred unless the shares are sold.

However, the decision to sell the GSX shares on May 10 reversed that assumption, and the accounting standard requires the portion of accrued taxes related to investment profit of subsidiaries that had been recorded by March to be recognized in the March income statement. Our decision to sell the GSX shares on May 10, 2023, caused us to retroactively adjust the income statement for the fiscal year ended on March 31.

The impact is an increase in taxes of approximately JPY40 million, and a decrease in deferred tax assets in the partner account, which means that although the profit before income taxes is the same, all profits below that level including net profit have decreased by JPY40 million each, due to the higher amount of taxes.

[Financial Highlights] Consolidated Operating Results

BBS

(millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023	Change from previous year	Earnings* forecast	Ratio to expected value
Orders received	33,647	42,171	25.3%	-	-
Revenue	32,346	37,063	14.6%	36,000	103.0%
Operating profit	2,745	3,208	16.9%	3,000	106.9%
Ratio of Operating profit	8.5%	8.7%	+0.2 points	-	-
Profit before tax	2,792	3,241	16.1%	3,000	108.0%
Profit	1,828	2,067	13.1%	2,000	103.4%
Profit attributable to owners of parent	1,782	1,838	3.2%	1,800	102.1%
Return on equity attributable to owners of parent	5.5%	5.0%	-0.5 points	-	-
Quarterly diluted earnings per share	147.55 yen	154.69 yen	+7.14 yen	-	-
ROE	14.9%	13.0%	-1.9 points	-	-

* Values announced on April 28, 2022

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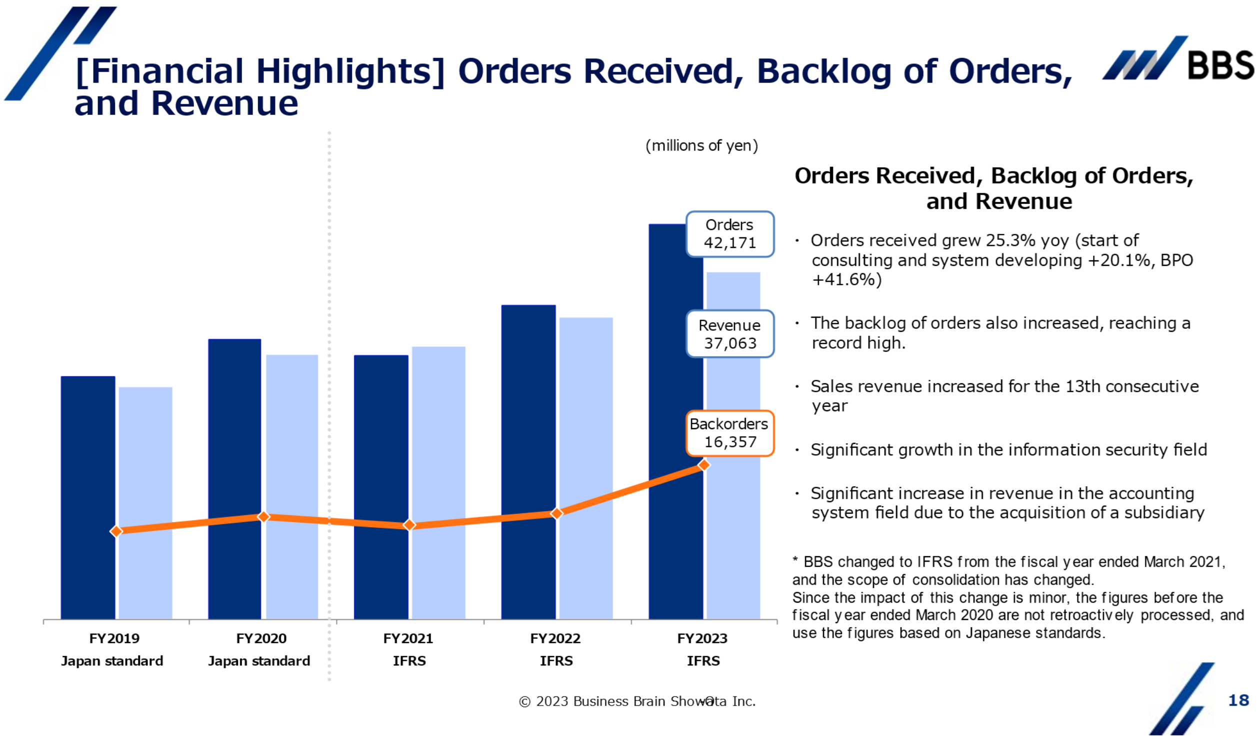
I would now like to begin explaining our financial results for the fiscal year ended March 31, 2023.

First, let us look at orders received. They reached JPY42.171 billion, which amounts to an increase of JPY8.5 billion, or 25.3%.

Revenue, at JPY37.063 billion, increased by JPY4.7 billion, or 14.6%. This is approximately JPY1 billion more than the forecast announced at the beginning of the period.

Operating profit was JPY3.208 billion, an increase of JPY463 million, or 16.9%, which is also approximately JPY200 million higher than the initial forecast. The ratio of operating profit also improved by 0.2 percentage points.

Net profit attributable to owners of the parent company was JPY1.838 billion, an increase of JPY57 million, or 3.2%.



The details are given on the following page.

First is the status of orders received. As I mentioned earlier, the growth was quite significant, with a 25.3% increase over the previous year. A breakdown is provided in the small notes. The consulting and system development business increased by 20%, and the management services (BPO) business increased by 41.6%.

However, please note that in the management services (BPO) business, especially for large projects, multi-year contracts are concluded, and when a contract is renewed every few years, orders increase dramatically. In this sense, during the fiscal year ended March 31, 2023, the renewal period of large orders was slightly concentrated, which led to an increase in orders received.

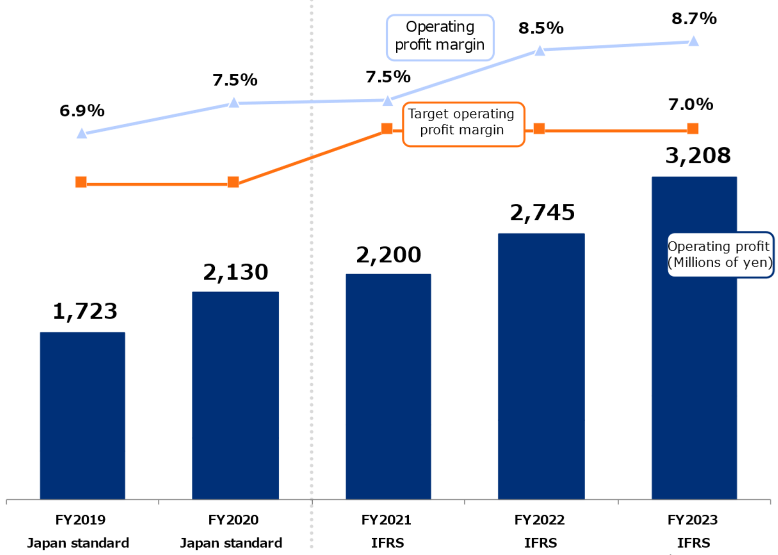
Normally, our management is more concerned with the number of new contracts we win and how much they are worth, rather than the amount of orders received. Orders received tend to increase or decrease rather easily, so we do not monitor them too closely or deal with them directly.

We think the consulting and system development business is growing steadily, at a rate of 20%. As a result, the order backlog is JPY16.3 billion, which is even higher than the largest order backlog in recent years, which was in the fiscal year ended March 31, 2020.

Sales revenue increased steadily for the 13th consecutive fiscal year, to JPY37.063 billion.

As I mentioned in the side note, the main reasons for this are the particularly strong growth in information security and in accounting systems, where there have been some acquisitions, and the steady recovery in PLM support solutions.

[Financial Highlights] Operating Profit



Continued growth in profits

	Operating profit
Fiscal year ended March 31, 2022 (first half)	**2,745**
Gross profit increase	**997**
Increase in SG&A expenses (- indicates an increase in expenses)	
Increase due to acquisitions (JW, BSC)	-406
Increase in personnel expenses	-553
Increase in outsourcing costs	-93
Increase in hiring costs	-46
Decrease in depreciation and rent	487
Decrease in advertising expenses	122
Other	-45
Increase in SG&A expenses, etc.	**-534**
Fiscal year ended March 31, 2023 (current period)	**3,208**

* BBS changed to IFRS from the fiscal year ended March 2021. Figures before the fiscal year ending March 31, 2020 are posted as a reference to illustrate performance trends.

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Operating profit is presented next.

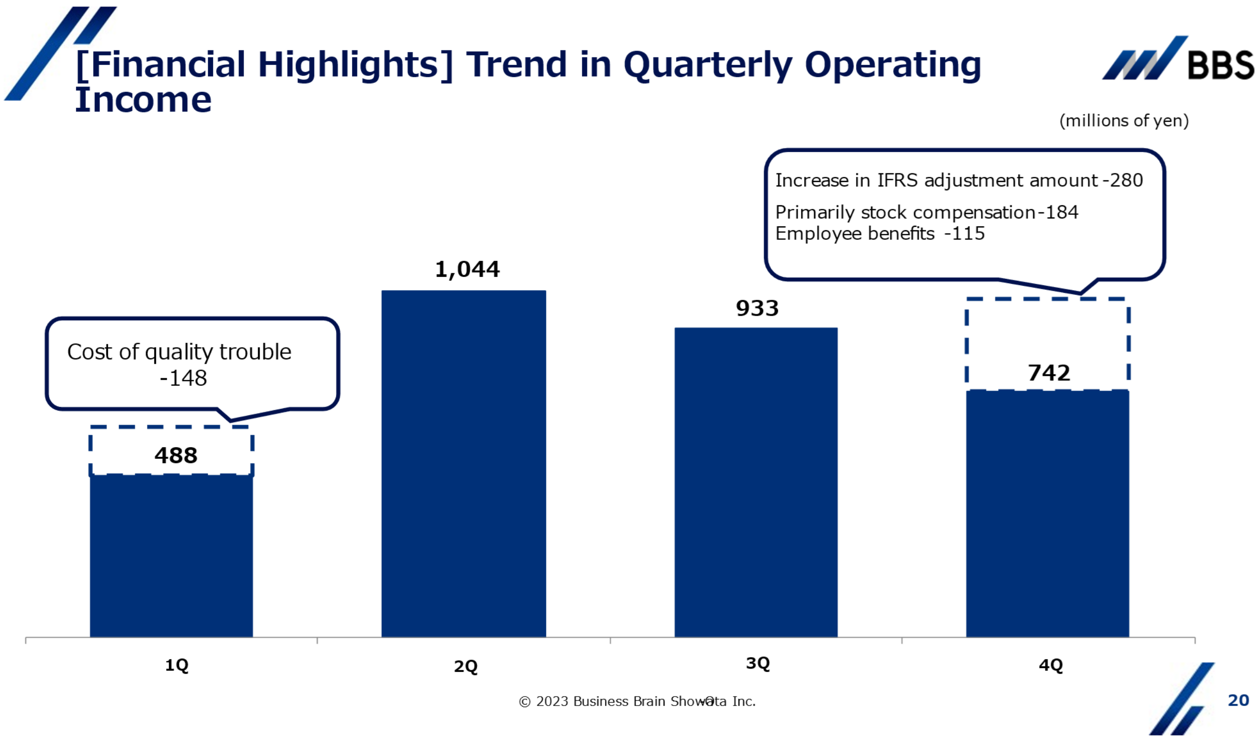
Operating profit increased by 16% to JPY3.208 billion.

A breakdown of the change in operating profit from the previous year is provided on the right. Operating profit was JPY2.745 billion in the previous year. The increase in gross profit due to increased sales and other factors contributed JPY997 million, and the negative factor of SG&A expenses contributed JPY580 million, for a final total of JPY3.208 billion.

I will now present the changed factors in SG&A expenses. I will start with the increase factors. As mentioned earlier, the largest factor was an increase in SG&A expenses from subsidiaries, caused by the acquisition of subsidiaries. This expressly led to an increase in personnel expenses. We are also strengthening our recruitment efforts, especially for experienced and mid-career workers, which has led to a considerable increase in recruitment fees paid to agents.

Let's now look at the decreased factors of SG&A expenses, which are closely related to positive change factors for profit. The relocation of the head office in the fiscal year ended March 31, 2022 resulted in a large increase in various expenses. The decrease in these relocation expenses compared to the previous year pushed SG&A expenses downward.

[Financial Highlights] Trend in Quarterly Operating Income



We have included quarterly trends on the next page.

Normally, the most profitable quarter of the year is Q4, but unfortunately, Q4 was a bit disappointing this fiscal year.

As written in the rectangles, the share price rose toward the end of the fiscal year, which is a good thing for us. However, we also have stock compensation expenses, a VIP trust for directors, and a trust system for the employees' shareholding association whose brand name is E-Ship.

Since the stock price of the trust reflects the market value of the stock at the time it is issued to the employee, as the stock price rises, the cost of the trust inevitably increases. The impact was just under JPY200 million, or about JPY180 million.

Another factor is the cost of employee benefits, which you may have heard of often as provisions for paid leave. This treatment is unique to the IFRS. It is a system that recognizes the cost of granting paid leave to employees when such leave is granted.

This is partly because the number of employees has increased, but also because the government has recently been encouraging more and more employees to take paid leave. In addition, as we move away from the pandemic, employees are now able to move and travel and are taking more paid holidays. In addition, the number of employees itself has increased. As a result, the balance of paid holidays has decreased due to an increase in the rate of taken paid leave, and costs were incurred to make up for this decrease.

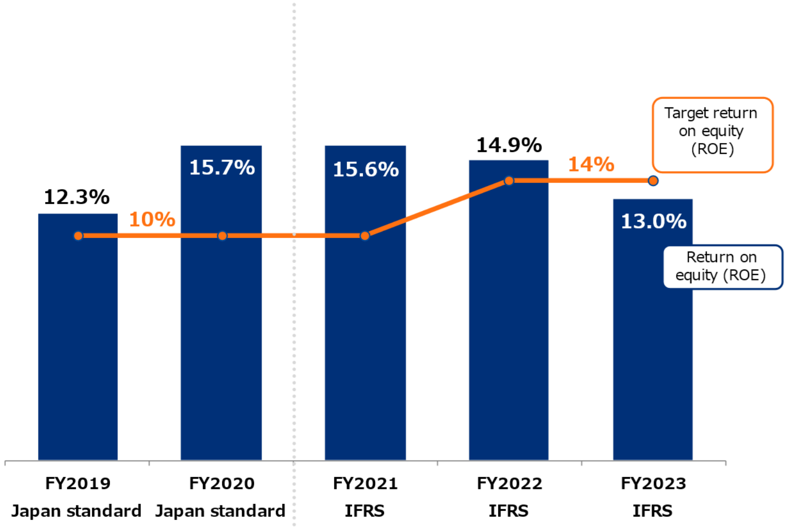
Generally, in the consulting and system development business, the goal is to launch systems at turning points of the fiscal year, such as March or September, so profits are usually higher in Q2 and Q4. However, this wasn’t the case this fiscal year due to the reasons I just explained.

Also, as is the case every year, GSX does a lot of preparation work in Q4 for the next fiscal year, so Q4 tends to be lower for GSX. This has also impacted us.

Also, if you look at the Q1 and Q3, the impact of the BPO business is strong, because jobs related to tax-withholding come in Q3. This work is done once a year, usually between the end of the fiscal year and the beginning of the new year, and that is when sales increase significantly.

However, if you look at past results, I guess you could say there are some special factors at the quarterly level. For example, if a high-margin project is sold, or if there are quality problems, which was the case this first quarter, results are strongly impacted and it becomes difficult to grow as much as we could in theory.

[Financial Highlights] Return on Equity (ROE)



Target not achieved

Net profit margin on sales revenue (5.5%→5.0%)

Despite an increase in revenue, the operating profit margin improved by 0.2 percentage points, but the profit margin attributable to owners of the parent company decreased due to the sale of GSX shares.

Total capital turnover (1.3→1.3)

While cash, financial assets, and trade receivables increased, there was little change due to a decrease in contract and right -of-use assets at headquarters and other offices.

Financial leverage (2.1→2.1)

There was no significant change in capital due to an increase from the sale of GSX shares and a decrease from share repurchases.

Another management indicator that we are monitoring is ROE. As Komiya mentioned earlier, we have set a target of 14%, but for the fiscal year ended March 31, 2023, it was 13%, 1.9% lower than the previous year.

The main reason for the decline was the deterioration of the profit margin on sales, as you can see on the right-hand side.l The profit margin decreased by 0.5 percentage points from 5.5% to 5%, and the impact is visible here.

Actually, the operating profit, operating profit margin and profit margin before taxes increased YoY, but the sale of GSX shares at the very end, during the interim period, had a negative impact on the parent company's share, which ultimately led to a decrease in the related net profit. The ROE deteriorated as a result.

The gain on the interim-period sale of GSX shares naturally created an increase in capital due to the profit on sales. The ROE denominator consequently increased but, as Komiya explained earlier, this was offset by the acquisition of treasury stock. Thus, there was little change in financial leverage.

[Earnings Forecast] Dividends

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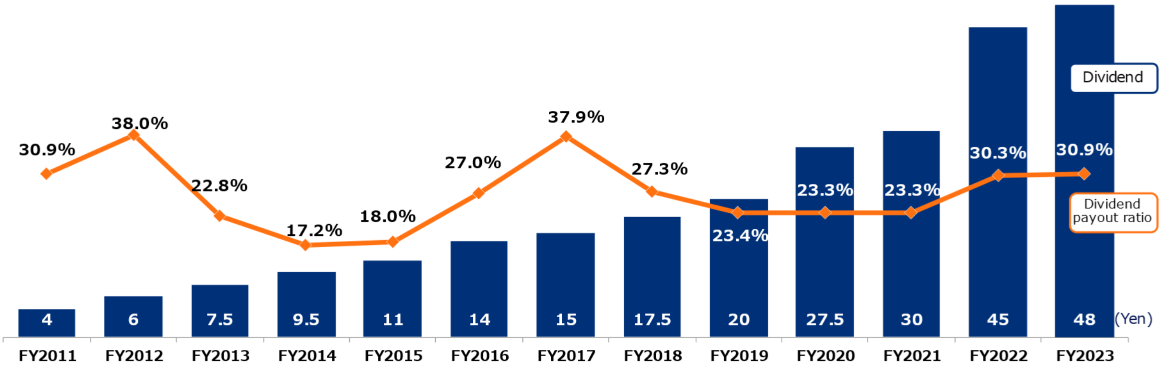
Interim dividend of 22 yen.
Based on the basic policy of a 30% dividend payout ratio, the year-end dividend will be 26 yen, with total annual dividend expected to be 48 yen.

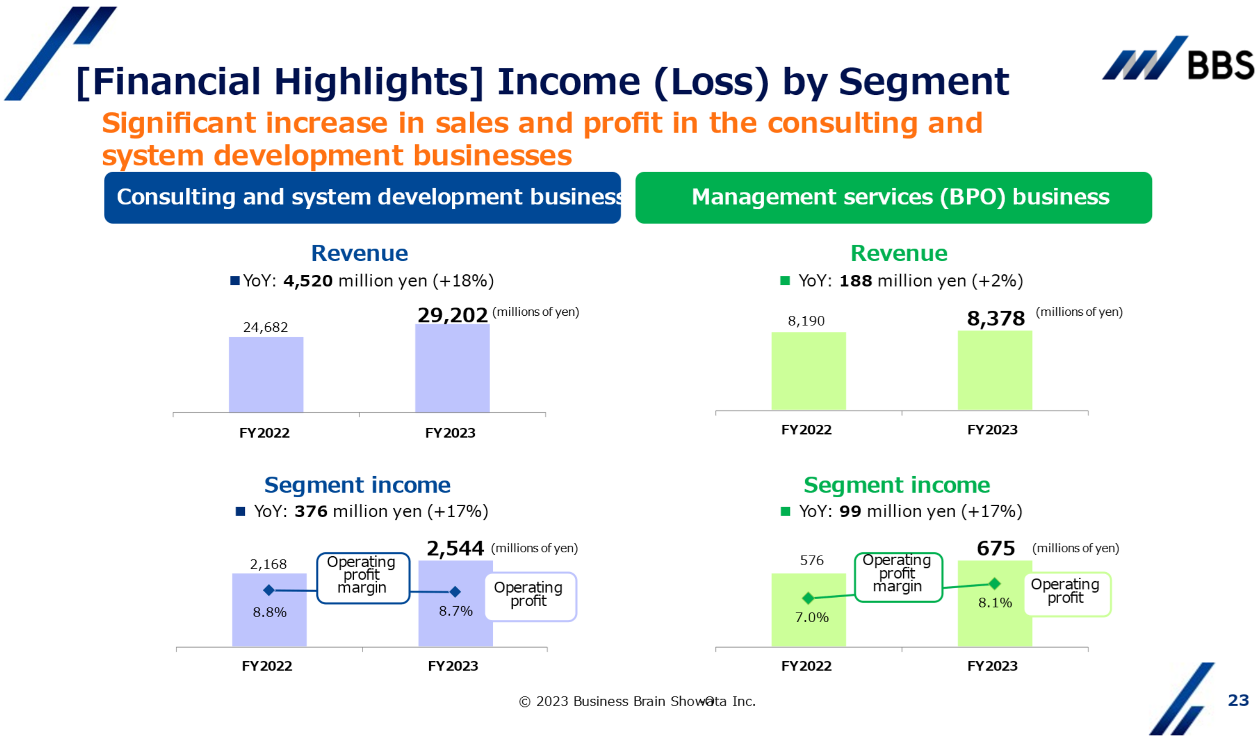


*The Company conducted a 2-for-1 stock split of common stock, effective July 1, 2020.
Accordingly, the annual dividend per share for the fiscal year ended March 31, 2020 and prior is shown after taking into account the stock split.

This is the evolution of dividends.

We have set a target of a consolidated dividend payout ratio of 30% from this fiscal year.

In our initial forecast at the beginning of the fiscal year, we had announced an interim dividend of JPY22 and a year-end dividend of JPY23, for a total of JPY45 for the full year. However, due to the increase in profit at the end of the fiscal year, we have adjusted the payout ratio to 30%, and we would like to increase the year-end dividend by JPY3 to JPY26, for an annual dividend of JPY48.



From here, I would like to talk about our business segments.

First, as a general overview, in the consulting and system development business, revenue increased by JPY4.5 billion from the previous fiscal year to JPY29.202 billion, which represents an 18% increase. Segment income also increased by JPY376 million to JPY2.544 billion, a 17% increase as well.

On the other hand, in the management services (BPO) business, revenue increased by JPY188 million to JPY8.378 billion, an increase of only about 2%. Segment income also increased by approximately JPY100 million to JPY675 million, an increase of 17%, and although income grew steadily, sales unfortunately did not increase much.

As you can see, the consulting and system development business is growing in an overall favorable business environment. In addition, revenue has increased due in part to the effects of acquisitions.

In the management services (BPO) business, as we will explain later, the growth of HR payroll outsourcing has not been very strong, which is the reason why overall sales growth has been struggling. However, the improvement in the profit margin in this area has contributed to the increase in segment profit.

[Financial Highlights] Consulting and System Development Business Details

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(millions of yen)

	Revenue			Segment income		
	Year ended March 31, 2022	Year ended March 31, 2023	YoY Increase (decrease)	Year ended March 31, 2022	Year ended March 31, 2023	YoY Increase (decrease)
Accounting system consulting and system development	14,811	17,653	2,842	1,541	1,451	-90
System development for the financial industry	5,259	5,357	98	298	214	-84
Information security consulting	4,366	5,544	1,178	318	736	418
PLM support solutions	766	1,148	382	80	173	93
(Adjustment)	-520	-500	20	-69	-30	39
Segment total	24,682	29,202	4,520	2,168	2,544	376

■ **Accounting system consulting and system development**
Significant increase in sales due to sales of 2,049 million yen from JW, which was acquired in August two years ago, and BSC, which was acquired in April last year. Profit and loss contributed 7 million yen due to posting PMI expenses. Excluding the effects of acquisitions, sales increased by 5%, and the profit margin was 9%, down about 1 percentage point from the previous term. The impact of IFRS adjustments is -270 million yen.
■ **System development for the financial industry**
Sales of fund wrap projects expected in the 4th quarter were pushed to the next fiscal year and did not grow in the second half.
■ **Information security consulting**
Revenue and profit increased due to strong performance of information security consulting and information security specialist training for small and medium-sized businesses.
■ **PLM support solutions**
Revenue and profit increased due to the recovery of the mobility field, which was sluggish in the previous fiscal year, and the expansion of sales channels to industrial machinery manufacturers.

I would like to go into further detail and provide a breakdown of each sub-segment.

First, within the consulting and system development segment, the accounting system consulting and system development business is mentioned at the top. The results here include JoyWorks, which was acquired the year before last, and BSC, which was acquired last April.

Specifically, the total sales of both companies amounted to approximately JPY2.040 billion, which greatly contributed to revenue. However, they did not contribute much to profit with about JPY7 million or just under JPY10 million due to PMI and various other measures, but this didn't particularly hold us back.

As mentioned earlier, there were some quality problems in Q1 of the current fiscal year, or should I say last fiscal year, and we had a bit of a rough start to the fiscal year ended March 31, 2023, but in the end, excluding the effect of acquisitions, sales increased by about 5% on a real basis.

The profit margin was 9%, about one percentage point below that of the previous year, but this is also due to the IFRS impact I explained earlier. The largest negative factor in this segment was the impact of stock-based compensations, which negatively contributed about JPY270 million. Due to these factors, the profit amount decreased YoY.

Speaking of the current fiscal year, however, the order backlog based on the new orders I mentioned earlier has been building up considerably, and we currently have a very solid outlook for the Q1 figures. We are now in the process of placing orders with a focus on Q2 or H2.

However, recently, projects have become smaller, and it is difficult to foresee the future. When a large project is won, orders are recorded partially, so orders received do not rise at once, but we can anticipate the coming orders from the same project if the current order is completed successfully. For smaller projects, it is difficult to predict the future because each project is completed one at a time, so we have to go back and acquire another project to be able to anticipate growth.

As I mentioned last year, high utilization and high profit margins have continued despite a considerable shortage of staff. In this sense, we believe it is necessary to increase the number of recruits, subcontractors, and partners to bring the utilization ratio down to a more stable level, as we now consider it to be a factor in deteriorating profits.

In addition, we have increased wages mainly in the parent company since April by about 5%, including a so-called base pay increase and regular salary increases.

The next sub-segment is system development for the financial industry.

The SE temporary staffing business, known as SES, accounts for a significant portion of this sub-segment, and although it has a large volume, the profit margin is not very high.

However, as I have mentioned many times, we have a proprietary package called "fund wrap," and when this package sells, the profit margin rises considerably. So the profit margin relies greatly on the sales of this product.

In fact, there were several fund wrap projects that were expected to generate sales in Q4, but unfortunately they have been moved to this new quarter. This means that we are off to a good start thanks to these postponements.

We expect that the profit margin in H1 will be about the same as in the previous fiscal year. For H2, we are planning to further improve the fund wrap functionality to increase sales.

Next, the information security consulting sub-segment can be seen in GSX's earnings announcement so please take a look at it.

At the bottom is the PLM support solutions sub-segment. This increase is a reaction to the poor performance in the fiscal year ended March 31, 2022. Originally, our main customers were in the automotive industry, and in the fiscal year ended March 31, 2022, orders were not so good due to various industry restructuring factors.

In this context, we decided that a singular focus on the automotive industry was not a good business model, and from the year before last to last year, we expanded our sales channels to other industrial equipment manufacturers and so on. As the effect of these efforts began to materialize, orders from mobility-related customers, who were originally our main customers, began to increase, which led to a significant increase in orders this time around. This is the first time that sales in this sub-segment have exceeded JPY1 billion.

In the fiscal year ending March 31, 2024, demand for mobility and automobile-related products is expected to slow down again, so it is difficult to expect a level of growth as high as in the previous fiscal year. The PLM business has been a BOM business at the design stage, but there was some distance between the BOM and BBS's production control business and PLM was pretty independent. We are now considering various development strategies to such as alliances to bridge this gap and create a cohesive series of businesses.

[Financial Highlights] Management Services (BPO) Business Details

BBS

(millions of yen)

	Revenue				Segment income			
	Year ended March 31, 2022	Year ended March 31, 2023	YoY Increase (decrease)		Year ended March 31, 2022	Year ended March 31, 2023	YoY Increase (decrease)	
HR and payroll related outsourcing	3,243	3,276	33	↗	307	511	204	↗
Outsourcing for global companies	1,918	1,890	-28	↘	143	42	-101	↘
Outsourcing for foreign companies	898	1,012	114	↗	66	85	19	↗
Onsite BPO	2,236	2,281	45	↗	116	107	-9	→
(Adjustment)	-105	-81	24		-56	-70	-14	
Segment total	8,190	8,378	188	↗	576	675	99	↗

■ **HR and payroll related outsourcing**
Sales remained flat due to a lack of growth in orders received as a result of handling unprofitable projects in the previous fiscal year. Significant increase in profit due to review of project management and streamlining of operations.
■ **Outsourcing for global companies (supporting BPO for highly specialized business operations, etc.)**
Decrease in revenue and profit due to the termination of large-scale projects in the previous fiscal year at a payment-related subsidiary. In the outsourcing business for large companies, sales did not increase due to a lack of new projects, and profit levels also declined.
■ **Outsourcing for foreign companies**
Revenue and profits increased due to expansion of clientele from bilingual projects to companies in Japan.
■ **On-site BPO**
Sales remained unchanged from the previous year due to a lack of growth in orders from major clients, and income decreased due to an increase in hiring costs resulting from an increase in the number of employees retiring.

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I will now move on to the management services (BPO) business.

First, in HR and payroll-related outsourcing, we had unprofitable projects in the fiscal year ended March 31, 2022, which resulted in poor performance in that fiscal year. As these projects winded down, profit recovered in the fiscal year ended March 31, 2023. This is one positive factor.

On the other hand, we are currently reviewing our sales structure, which has not been very good, and we thought that we would be able to get it right from H2 FY2023, but it is taking longer than expected to rebuild this structure. In this context, we are not sure that we have a system in place to increase sales yet this fiscal year, and we expect sales growth to be difficult to achieve.

Moreover, apart from the wage increases I mentioned earlier, costs have been rising, so naturally we are focusing our efforts on negotiating with customers to pass on costs to existing contracts, or in other words, to raise prices. First of all, we are moving forward with efforts to improve profits or increase sales to existing customers by raising prices.

In the outsourcing business for global companies, a large project for a settlement subsidiary was terminated in the fiscal year ended March 31, 2022, and as a result, profitability for the following fiscal year ended March 31, 2023 was poor in some areas.

Regarding the original outsourcing for large companies, we have not been able to take on large new projects, so sales have not increased. In prevision on new projects, we built a new center in Kagoshima and this cost increase also weighed down the profit level.

However, our subsidiary has been profitable since the latter half of the fiscal year ended March 31, 2023, and inquiries have been increasing gradually. We are not sure to be able to grow significantly this year, but we are off to a promising start.

This segment also includes about JPY25 to JPY26 million in IFRS adjustments, which further pushed the performance down significantly.

Outsourcing for foreign companies is originally an inbound business, in which the main customers are Japanese subsidiaries and branches of foreign companies that have come to Japan. Since this type of customer is not growing, we have been successfully conducting sales activities targeting small and medium-sized domestic companies and investment projects such as REIT projects, which led to growth in revenue and profit.

However, since this sub-segment is not that large in scale, unfortunately it has not yet reached the point where it can make a significant contribution to the overall performance.

Then, there is onsite BPO. If pushed I'd describe it as a dispatching business. We have several large customers, but orders from them have not increased that much and sales have not grown.

Moreover, the high mobility of human resources in these circumstances has increased recruitment costs, which has been a factor in the decline in profits. We are now looking at the possibility that there will not be a major decrease in profit like last year, since things have calmed down a bit this year in terms of personnel turnover.

I will skip the balance sheet.

[Earnings Forecast] Consolidated Operating Results

Lower sales and income expected due to group restructuring.

(millions of yen)

	Fiscal year ended March 2023 (actual)	Fiscal year ending March 2024 (forecast)	Difference	YoY change
Orders received	42,171	35,500	-6,671	-15.8%
Revenue	37,063	34,000	-3,063	-8.3%
Operating profit	3,208	2,600	-608	-19.0%
Ratio of o perating profit	8.7%	7.6%	-1.1%	-
Profit before tax	3,241	20,920	17,679	545.5%
Profit	2,067	14,552	12,485	604.0%
Profit attributable to owners of parent	1,838	14,522	12,684	690.1%
Ratio of profit attributable to owners of parent	5.0%	42.7%	+37.7%	-
Dividend per share	48 yen	72 yen	24 yen	-

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[Earnings Forecast] Consolidated Operating Results

When the equity method is applied to GSX in the fiscal year ended March 31, 2023.

(millions of yen)

	Fiscal year ended March 2023 (actual)	Fiscal year ending March 2024 (forecast)	Difference	YoY change
Orders received	35,965	35,500	-465	-1.3%
Revenue	31,748	34,000	2,252	7.1%
Operating profit	2,509	2,600	91	3.6%
Ratio of o perating profit	7.9%	7.6%	-0.3%	-
Profit before tax	2,776	20,920	18,144	653.6%
Profit	1,846	14,552	12,706	688.3%
Profit attributable to owners of parent	1,838	14,522	12,683	690.1%
Ratio of profit attributable to owners of parent	5.8%	42.7%	+36.9%	-
Dividend per share	48 yen	72 yen	24 yen	-

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Let me proceed with the earnings forecast.

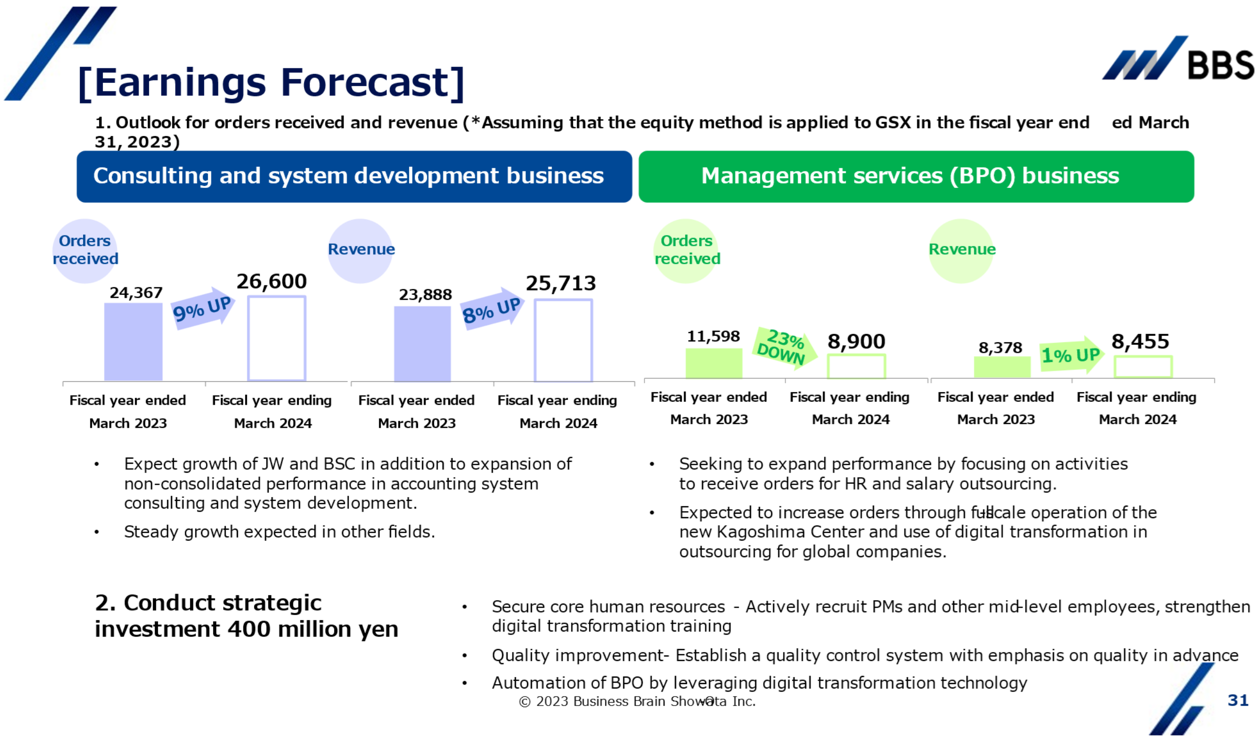
The forecast is as shown. However, it is difficult to compare the figures with those of the fiscal year ended March 31, 2023 because the GSX's portion has been greatly reduced. For this reason, we have prepared the forecast excluding GSX.

First of all, we expect a decrease in orders received. This might surprise you, but the momentary major renewals in management services (BPO) that I mentioned earlier are not expected to be so large this time around, which is why we forecast a decrease. Conversely, the consulting and system development business is growing steadily. I would like to explain in detail later.

As for revenue, we do not expect the trend to change much from the fiscal year ended March 31, 2023, mainly thanks to an increase in the consulting and system development business.

Operating profit is expected to be slightly lower due to the impact of gradual increased investments for the future.

Profit before tax includes JPY1.9 billion in direct gains from the sale of GSX shares. Also, according to a special IFRS rule, when a company is changed from a consolidated company to an equity method company, the remaining shares must be valued at market value, so a valuation gain of about JPY16 billion is added. In total, extraordinary profit, as it is called in Japanese terms, is about JPY18 billion, and this should push this profit up considerably.



If you look at the forecast by segment, I think you can see clearly what I was talking about earlier regarding orders. As you can see, we expect orders for the consulting and system development business to grow approximately 9%.

As I discussed separately earlier, we expect steady growth in the main accounting system consulting business, with an 8% increase.

We do not see much growth in the financial industry-related business or PLM in the current fiscal year. As a result, we are forecasting a 9% increase for orders and a 8% increase for sales.

As for management services, as I mentioned earlier, orders will return to the normal level, as the momentary characteristic of orders has been eliminated. If you compare the forecast to revenue, I think you will understand that the situation has settled down to an acceptable level.

As a result, the ratio will be reduced by about 23%, but we do not consider this to be an unusual evolution.

As for revenue, we expect that outsourcing to foreign companies and onsite BPO will remain strong. Also, as I mentioned earlier, we are receiving an increasing number of inquiries about outsourcing services for global companies, and we expect sales to increase if we are able to successfully convert these inquiries into projects.

However, it takes a long time for sales to increase for outsourcing services that are large in scale, so it may be difficult to determine how much they will contribute in terms of sales.

There is also HR and payroll related outsourcing. This is our largest volume zone, and we would like to fix our sales structure here as quickly as possible to increase sales.

On the cost side, I mentioned strategic investments earlier. We expect to invest about JPY400 million this fiscal year.

Content-wise, we are thinking about people-related, quality-related, and DX-related investments. In particular, we have a variety of DX technologies for our BPO business, which we also provide to our customers on the solutions side, so we want to see to what extent we can advance the automation and efficiency of BPO by promoting good internal collaboration in this area.

We are now conducting various studies in the hope that the BPO business will change from a not-so-profitable business to a good business if we can increase our rate of automation ahead of other companies.

As a result, we project JPY34 billion for revenue and JPY2.6 billion for operating profit.

This was a lengthy explanation, but I would like to conclude this summary of our financial results and our earnings forecast. Thank you very much for your attention.

Moderator: Thank you for your explanation.

Question & Answer

Moderator [M]: We will now begin the question-and-answer session.

Please raise your hand if you have any questions. Please note that the transcripts of this briefing, including the question-and answer-session, will be published. Your name and company name will be included in the scripts if you choose to include them in your statements. If you wish to remain anonymous, please refrain from providing them when you ask your question, thank you.

Alright, I would now like to take questions from the audience. Thank you very much. Yes, go on.

Participant [Q]: I'm sorry, but how should GSX's equity be considered in the future? In other words, I understand that the policy was to sell GSX's shares and move to the equity method because the company was a factor of fluctuations when consolidated.

When you explained IFRS rules earlier, there is still a portion that moves at market value, so I have the feeling that the variation factor still remains, what do you think? I would appreciate your thoughts on this.

Uehara [A]: I will answer your question. With regard to GSX stock, we had already made a promise to TSE at the time of listing that we would terminate listing of parent and subsidiary pairs within an appropriate period of time. I believe this was announced at the time of listing. That is the policy we have followed.

As a result, our equity share has fallen to about 40%. On the other hand, as Komiya mentioned earlier, we do not intend to completely separate GSX's cybersecurity business from the BBS Group, and in fact, we would like it to remain an important part of the Group.

And consequently, we actually do not think that there is much room for sale anymore, even if we were to sell in the future. As GSX grows in the future, I believe that stock options, third-party allocation of shares and other such things will be involved in a variety of ways. We have not discussed this at all, but we believe it is a possibility.

In order to prepare for such an eventuality, I believe that as a parent company, we must have a certain level of comfortable shareholding ratio.

As for what we are going to do in the future, we have not yet had a clear discussion even within BBS, as discussions were about how to reach the current stage. Since the management team has not discussed future moves, I don't think there will be any sudden sales or anything like that in the future.

As for the accounting impact, as we mentioned a little while ago, GSX's stock price is eventually valued on the balance sheet at market value.

Specifically, the market value on the balance sheet was JPY5,600 on May 10, the peak price, so there is a possibility of revaluation or impairment during the month of settlement of accounts. We are fully aware of such risks.

However, if you look at it from the perspective of cash flow, I am not only saying that the profits have returned on paper, but also that the stock price is properly evaluated in the context of our core business and business operations and we accept this earnestly.

This will not change our stance, and if anything, we want to take a substantive approach based on the substance of our business while keeping a close eye on cash flow to some extent and, conversely, taking into account returns to shareholders and the change in our dividend policy this time. I hope this answers your question.

Participant [Q]: Well, I don't know. There was some business at GSX that moved sales and profits quite a bit, although fluctuations were not extremely random. I think you are going to focus on accounting and human resources in the future, but what do you consider to be the most important factors for growth?

Is there something that you understand or don't understand, and do you have any thoughts on how you would like to expand a particular area? I would be very interested in hearing from the president.

Komiya [A]: I think PLMJ and other companies have shown some good results this time, but first of all, in terms of accounting, I think we will be able to expand the production control area quite a bit. PLMJ is strong in production control and BBS is strong in cost accounting and such, so I think they will grow together in a streamlined fashion.

We are also looking to expand our finance-related business in new areas, such as fund wraps and peripheral areas, as well as new fintech technology, while protecting our stock business in the financial area, which we have been doing through SES. We hope to expand the financial business in such areas.

We have also been able to enhance the consulting side of HR and payroll to some extent, and we hope to expand both consulting and BPO. That is all.

Participant [Q]: So then, in your company now, do you think that the functional side is covered, or do you still think that you need to add more functions, what are your thoughts on that?

Komiya [A]: We believe we need to increase functions.

Participant [M]: I understand. Thank you very much.

Moderator [M]: Thank you. Are there any other questions? Is that all?

There being no further questions, this concludes today's financial results briefing. Thank you, Mr. Komiya, Mr. Uehara and company members for your explanation.

Thank you again to all of you for your attendance today.

[END]

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