

Together for Value



Business Brain Showa-Ota Inc.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2023

November 21, 2022

Event Summary

[Company Name]	Business Brain Showa-Ota Inc.
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[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2023
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[Date]	November 21, 2022
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[Time]	15:30 – 16:19 (Total: 49 minutes, Presentation: 45 minutes, Q&A: 4 minutes)
[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]	40
[Number of Speakers]	3 Kazuhiro Komiya President Hitoshi Uehara Senior Executive Officer, General Manager, Administration Division Yukinori Okada Deputy General Manager, Administration Division/ Manager, Corporate Planning Department

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Presentation

Moderator: Hello, everyone. It is time to commence the IR meeting of Business Brain Showa-Ota Inc.

First, I would like to introduce three people from the Company. Kazuhiro Komiya, President.

Komiya: Thank you.

Moderator: Hitoshi Uehara, Senior Executive Officer, General Manager, Administration Division.

Uehara: Thank you.

Moderator: Yukinori Okada, Deputy General Manager, Administration Division and Manager, Corporate Planning Department.

Okada: This is Okada. Thank you.

Moderator: Today, we will start with the presentation by President Komiya, followed by a question-and-answer session.

Mr. Komiya, please go ahead.

Komiya: Hello, everyone. I am Komiya, President. Thank you very much for participating in our financial results briefing today.

I will report on the progress of BBS 2023, the medium-term management plan announced last May, and then Uehara, Senior Executive Officer, General Manager, Administration Division, will give a detailed explanation of the financial results.

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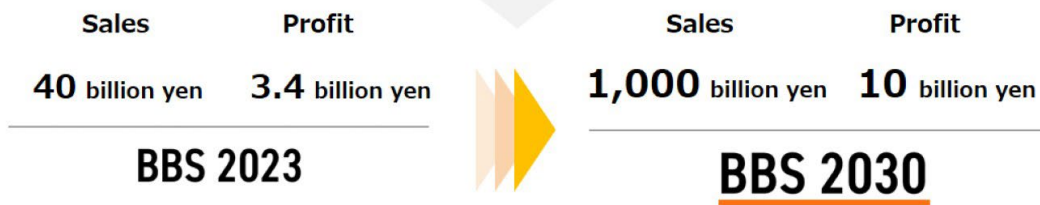


Goal 2030 (repost)

Goals and Values of the BBS Group



- B** Back Office Comprehensive Supporter
- B** Become a new management partner
- S** Sustainability Management · **S**trengthening human resources



*Maintain 70% of consulting/SI business and 30% of BPO business
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The BBS Group has 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 new management partner by adopting new way of working and technology in supporting our customers; focusing on sustainability management and strengthening human resources to contribute broadly to society. These are the three pillars of our daily activities.

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BBS 2023 Progress Summary



Business Progress	Company-wide strategy	Business Strategy	Corporate Strategy
<p>Revenue</p> <p>103.7%</p> <p>Operating profit</p> <p>117.9%</p> <p>Profit attributable to owners of parent</p> <p>103.2%</p>	<p>Strengthen group synergies Orders received among group companies</p> <p>65</p> <p>Strengthen M&As/Alliances Joyworks and BSC sales</p> <p>1,022 million yen</p> <p>BBS Quality Strengthen quality standards and reviews Promote prevention of failures</p> <p>Strengthen branding Page views</p> <p>16,000 increase</p>	<p>"R" CN2 strategy Royal Customer sales</p> <p>3,767 million yen</p> <p>No.1 Strategy Chugoku/Kyushu orders</p> <p>4 companies /19 million yen</p> <p>BPO business strategy RPA/OCR application results</p> <p>7</p>	<p>Strengthen Human Resources Hands-on internships Promote diversity</p> <p>DX</p> <p>Promote digital transformation Promote in-house digital transformation Strengthen digital transformation solutions</p> <p>Sustainability Continued disclosure of information Promote training</p>

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This is a summary of the activities of the medium-term management plan, BBS 2023. As you can see, sales and profit for H1 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 transactions with Royal Customers, 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.

I would like to elaborate and be more specific in this area. We have been working on the company-wide strategy of strengthening group synergy, and I am ashamed to say that for a long time, our group has been making profit on an independent company basis. However, we started by introducing customers to each other through group sales meetings and group consulting meetings to strengthen horizontal ties, and now, with 65 customers, we have achieved certain results in making mixed proposals such as security and IT, or sustainability and security or IT.

In this context, we used to take separate approaches to the same customers, but I think that by communicating horizontally, we have been able to connect with them in a variety of ways.

Another company-wide strategy we have put forth is to strengthen M&A/alliances. Last year, we had two companies join our group together through mergers and acquisitions, Joyworks Inc., and BSC Co., Ltd. As I said, it was a bit of a struggle at first because we were just starting out, but both companies are now becoming profitable after a single month.

For the most part, although we have not been able to meet the plan, we are making our utmost efforts to be in line with the plan and become black. In that sense, I think we will be able to recoup our investment much sooner.

Next, this business strategy is the Royal Customer, R CN2 Strategy, which I will explain in a moment. It is an industry sector. In terms of our group, we are currently in three industries, which are mobility, infrastructure, and construction-related infrastructure, although it is not a general contractor. We will focus on one company in particular, one company with which we have a deep relationship, and expand the above-mentioned scope

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of our business vertically with that one company first. Furthermore, we expand our business horizontally to other companies in the same industry to generate sales

Therefore, we work not only with one company but also with multiple companies more broadly in our horizontal development. In that sense, I think we have achieved certain growth in this area.

For the No. 1 Strategy, we are expanding the number of new clients through conventional means such as seminars and web marketing, but we are still struggling a bit in Chugoku and Kyushu, the so-called Hiroshima and Fukuoka areas, which are mentioned here. If we can open sales offices or branch offices in these areas, we will be able to expand our business. We have a BPO center in Kumamoto and a BPO center in Kagoshima, so I think it will be possible for us to expand in the way that we can take a bullet train from Tokyo to Kagoshima for our BPO offices.

In the business strategies, for the BPO business strategy, the main initiative is the implementation of RPA, which is a system of using machines and robots rather than manual labor. We are moving forward with the keywords of overwhelming productivity, and I think we are getting into a pretty good shape.

I will skip the corporate strategy, the last one, as it will be explained in more detail later.

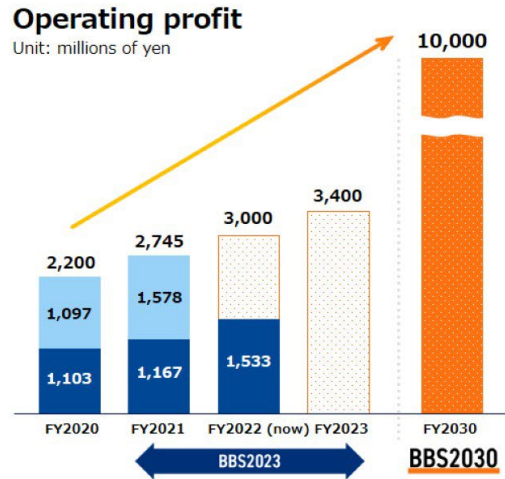
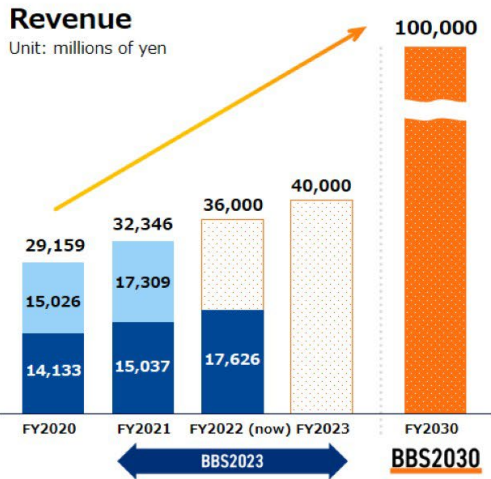
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Business Progress



In the first half of the second year of the medium-term management plan, and for the second quarter of the year ending March 2023, both revenue and operating income exceeded the same period of the previous year, and remained firm. BBS is steadily growing its business to achieve "BBS2023."

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As a result, sales revenue for H1 was JPY17.626 billion and operating income was JPY1.533 billion, both of which exceeded our initial forecasts.

We recognize that both sales revenue and operating income will be sufficient to meet our goals of JPY36 billion in sales revenue and JPY3 billion in operating income for the fiscal year ending March 2023.

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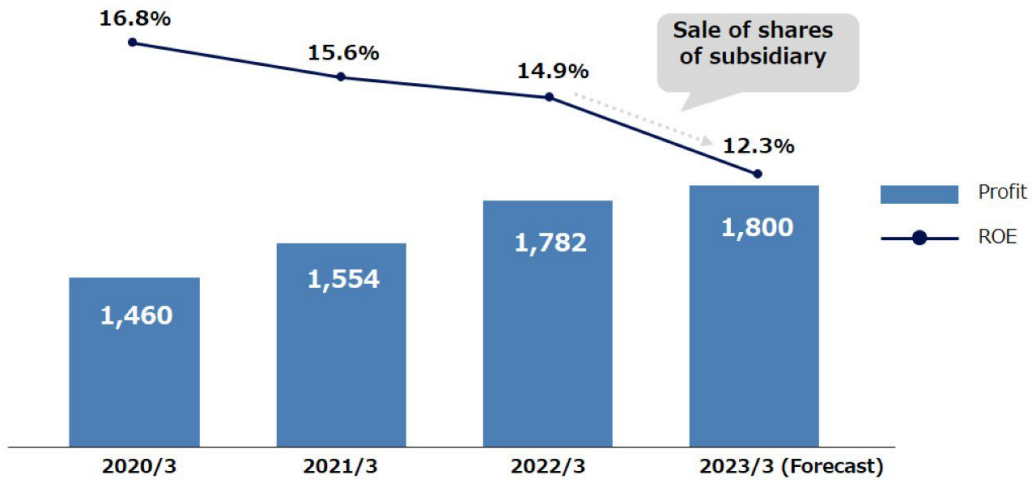




Capital Policy - Recognition of Issues -



In recent years, the BBS Group's ROE has declined moderately due to an increase in capital from higher profits. ROE is forecast to be 12.3% due to the sale of shares in Global Security Experts, Inc., a subsidiary of BBS.



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However, as you can see from the previous graph, we have been able to record steady profit for the past several years, but on the other hand, the partial sale of shares in our subsidiary, GLOBAL SECURITY EXPERTS Inc., announced in September, has resulted in an increase in consolidated accounting capital. As a result, ROE is expected to decline to 12.3% in the fiscal year ending March 2023.

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Reset target ROE	Pay reliable dividend	Share buyback
<p>Target</p> <p>New target of</p> <p>ROE 14%</p> <p>for BBS Group</p>	<p>Dividend policy</p> <p>Basic policy of dividend payout ratio</p> <p>30%</p> <p>to be implemented</p> <p>(Announced January 31, 2022)</p>	<p>Reason for buyback</p> <ul style="list-style-type: none"> To improve capital efficiency, such as improving ROE Continue and expand investment by investors through enhanced shareholder returns <p>Buyback overview</p> <ul style="list-style-type: none"> Buyback method: Market purchases Number of shares to buy back: 800,000 (Max.) Ratio of issued shares: 6.32% Cost of buyback: 1 billion yen (Max.) Buyback period: November 1, 2022 - October 31, 2023

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Previously, the ROE target was set at 10%, but in order to maintain financial stability and efficient operations, the ROE target has been raised slightly to 14% beginning this fiscal year. We have re-set the ROE target. In order to achieve this goal, we first announced in January that we would increase the dividend payout ratio to 30% as our dividend policy. Furthermore, since the ROE been falling a bit like this, we decided at the end of last month to repurchase our own shares as a capital policy necessary to achieve our goal. We recognize that this will lead to further returns for our shareholders.

The maximum number of shares to be acquired is 800,000 shares and the maximum acquisition amount is JPY1 billion with the acquisition period of one year from November 1 to the end of October next year. Depending on the share price, if we were able to purchase 800,000 shares, we would acquire 6.32% of the outstanding shares.

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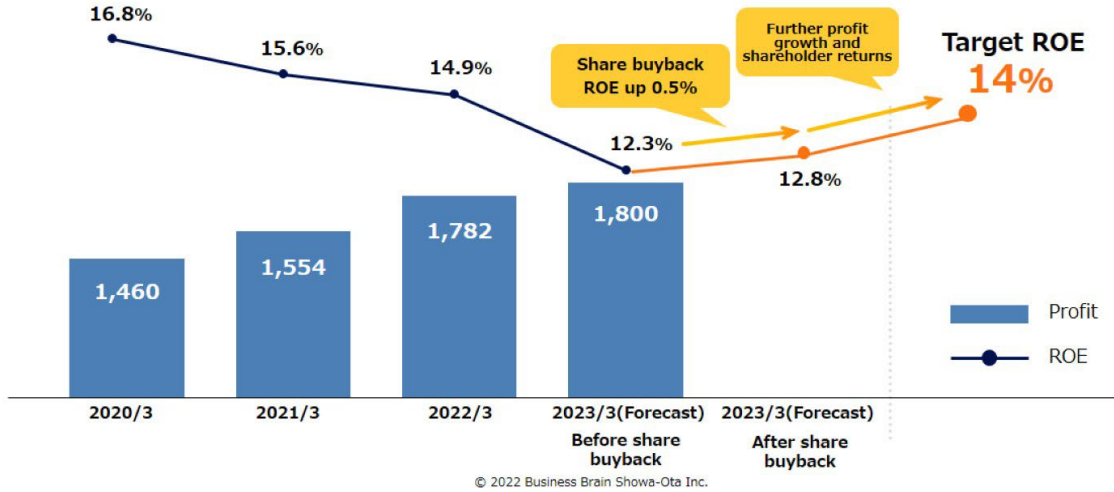
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Capital Policy - Change in ROE due to share buyback -



The share buyback is expected to increase BBS Group's ROE by about 0.5%.
Aim to achieve target ROE of 14% by further increasing profits and returning profits to shareholders.




With this share buyback, we expect ROE to improve to 12.8%. We would like to continue to improve our ROE by further increasing profit and returning profit to shareholders to reach our target of 14%.

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Digital transformation of back office business	Digital transformation of BPO operations	Develop DX solutions
<ul style="list-style-type: none"> ✓ Digital transformation of back office: 16 departments and 23 operations Leverage digital tools such as RPA and OCR to promote digital transformation in back office operations ✓ Further spread of digital transformation conversion of back office operations <ul style="list-style-type: none"> • Release back office portal • Hold back office contest 	<ul style="list-style-type: none"> ✓ Build hybrid BPO platform Build platform that combines digital tools and BBS know-how ✓ Promote use of RPA and AI-OCR 	<ul style="list-style-type: none"> ✓ Launch landing page  ✓ Added 3 new digital transformation solutions <ul style="list-style-type: none"> • intra-mart • mcframe • BPO

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And from here, another pillar in that sense, profit increase. I would like to discuss three points that we believe are particularly important for this to move forward.

The first is the DX initiative. DX promotion activities are implemented in three major areas to serve our customers.

One is shifting to DX of the internal back office. In this regard, 16 divisions and 23 operations have been shifted to in-house DX and are steadily improving operational efficiency.

Furthermore, as I mentioned earlier, we are working to DX our BPO operations, and in this regard, we are building a BPO platform in a hybrid form, utilizing digital tools, with the aim of achieving overwhelmingly higher productivity and enhanced quality.

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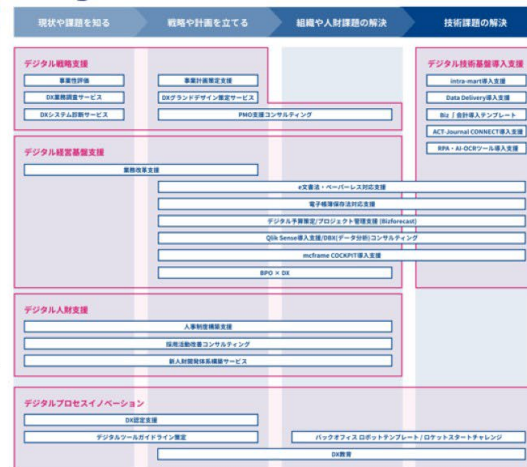
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▼ Landing page



【URL】 <https://www.bbs.co.jp/product/dx/>

▼ Digital transformation solution menu



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Lastly, this is the most important. In order to provide DX solutions to our customers in a timely manner, we have created a large menu of DX-related services, which are posted on our website.

This, which we are now projecting, will be the DX landing page and solution menu. Solutions are categorized into broad categories and posted in an easy-to-understand manner.

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Hire new grads	Hire experienced personnel	
<ul style="list-style-type: none"> ✓ Secure human resources by expanding work experience internships <ul style="list-style-type: none"> · Work experience as a business accounting consultant · Work experience as an IT consultant 	<ul style="list-style-type: none"> ✓ Expand hiring of core human resources (PM, SE, BPO, sales) <ul style="list-style-type: none"> · 52 new hires in the previous year ⇒ 52 new hires/job offers in the first half of this fiscal year ✓ Hire inexperienced people seeking new careers in IT/accounting 	
Transparency in human resources	Effective use and retention of talent	Human resource training (talent pool)
<ul style="list-style-type: none"> ✓ Optimize career skills development sheet ✓ Company-wide release of self-introduction sheets 	<ul style="list-style-type: none"> ✓ Use rotation system Placement of right person in the right position ✓ Support diverse work styles Expand systems such telework, childcare/nursing care, and gender equality and women's empowerment ✓ Hold seminar for second career after retirement *For those aged 50 to 59 ✓ Promote health and productivity management <p style="text-align: center; font-size: small;">© 2022 Business Brain Showa-Ota Inc.</p>	<ul style="list-style-type: none"> ✓ Conduct development training of next-generation leaders ✓ Strengthen human resources for the entire group

Next, the most important theme for generating profit for the Group is the strengthening of human resources.

The Group is working on a variety of measures to encourage both new graduates and experienced workers to join the Group. We will continue to try to combine skill development with support for work styles, such as development after joining, skill development through training in different fields, and the expansion of systems that can respond to changes in life stages and the social environment.

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Development	Development/BPO	BPO
<p>Compliance with project standards and quality control standards</p>	<p>Strengthen third-party reviews</p>	<p>Strengthen failure management and promote root cause preventive measures</p>
<ul style="list-style-type: none"> ✓ Standardize project plans, quality plan, and individual processes, and conduct quality analysis ⇒ Implementation rate: 100% ✓ Conduct quality analysis training for young employees and group companies ⇒ Train approx. 100 people in 3 years 	<ul style="list-style-type: none"> ✓ Publish and require <u>standard development man-hour calculation tools</u> based on public data such as IPA and JUAS ✓ Expand third-party reviews to the BPO area by the Quality Assurance Department ⇒ Review rate: 100% 	<ul style="list-style-type: none"> ✓ Quality Assurance Department provides <u>guidance and support for the analysis of production failures and systematically develops measures to prevent similar failures.</u> ✓ Currently working to meet quarterly failure reduction targets every month

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Another important task is to improve quality in order to further ensure profit. In the current fiscal year, we are working on the theme of strengthening quality in advance, and the quality assurance division is conducting horizontal management.

We are also implementing new measures such as process standardization of project planning and third-party reviews of BPO operations. Unfortunately, quality problems occurred in some projects in H1, so in this sense, we are thoroughly promoting advance quality control in H2.

I believe that strengthening quality is an eternal theme that we should continue to work on steadily, and I would like to continue to make improvements step by step.

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Exponential growth

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

Increase corporate value

Appeal to corporate value

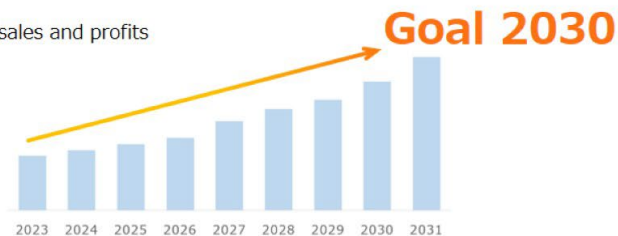
In addition to sales and profits, increase our value as a company and increase the trust of our stakeholders.

Continue to promote strengthening of alliances

Continue to promote collaboration with other companies to further improve the corporate value of the BBS Group

Non-organic strategy

Use corporate M&As to expand sales and profits



Next, we have set a goal of JPY100 billion, and I believe that M&A and alliance strategies are indispensable for this leap forward. We are currently considering large-scale alliances, including M&A, in order to achieve sales of JPY100 billion in FY2030.

That is all for the progress of our mid-term management plan, but I would like to conclude my presentation with one final point, although it not a part of the alliances I just mentioned.

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mcframe AWARD 2022

Awarded for starting multiple new mcframe 7 SCM projects and increasing the number of mcframe 7 qualified employees



"Partner Conference 2022" hosted by JFE Systems, Inc.

Awarded "Growth Partner of the Year" for achieving the highest rate of growth from a certain amount of new contracts



▲ From the left: Tetsuo Oki, President of JFE Systems, Masato Tanibuchi, Managing Executive Officer of BBS

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BBS Group's efforts and contributions to new projects were highly evaluated, and we received partner awards from our business partners, Business Engineering Corporation and JFE Systems, Inc.

We would like to continue to deepen our cooperation with our partners and create a relationship that allows us to grow together, so in that sense, this is a new initiative, and this is the topic of this year's award.

That is all from me. Uehara will now give an overview of the financial results.

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[Financial Highlights] Consolidated Operating Results

(millions of yen)

	1 st half FY2021	1 st half FY2022	Change from previous year	Earnings forecast	Ratio to expected value
Orders received	16,895	19,117	13.1%	-	-
Revenue	15,037	17,626	17.2%	17,000	103.7%
Operating profit	1,167	1,533	31.3%	1,300	117.9%
Ratio of Operating profit	7.8%	8.7%	+0.9 points	-	-
Profit before tax	1,205	1,534	27.3%	1,300	118.0%
Quarterly profit	790	891	12.8%	850	104.8%
Quarterly profit attributable to owners of parent	752	794	5.6%	770	103.2%
Quarterly return on equity attributable to owners of parent	5.0%	4.5%	-0.5 points	4.5%	100.0%
Quarterly diluted earnings per share	62.09 yen	64.90 yen	+2.81 yen	-	-

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* Values announced on April 28, 2022

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Uehara: Hello, everyone. I am Uehara, General Manager of the Administration Division. I will now provide an overview of our financial results for 2nd quarter of the fiscal year ending March 2023

First, let me highlight the consolidated operating results. Reading the figures from the top, orders received were JPY19.1 billion, an increase of 13%. Revenue was JPY17.6 billion, up 17%, slightly exceeding the forecast announced at the beginning of the fiscal year.

Operating income was JPY1.5 billion, an increase of 31%, which is approximately JPY200 million higher than the initial forecast of JPY1.3 billion. The operating profit margin also improved by 0.9 percentage points, as you can see.

As a result, the profit attributable to owners of the parent company was JPY790 million, up JPY42 million.

I will explain the breakdown on the next page and beyond.

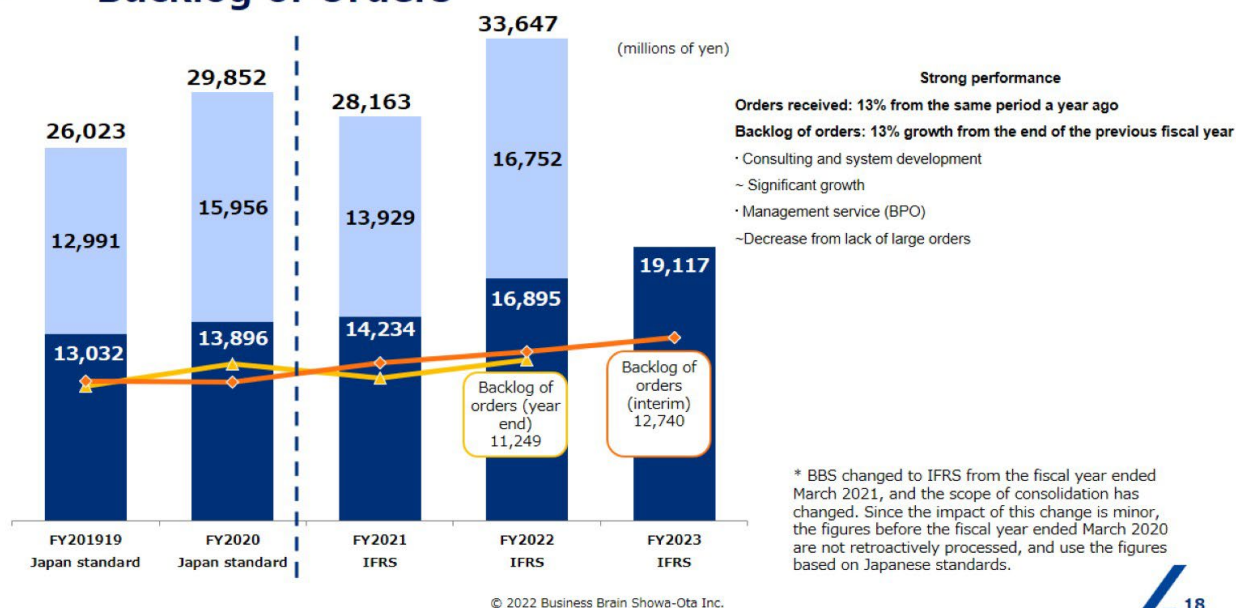
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[Financial Highlights] Orders Received and Backlog of Orders



First, orders received. Both orders received and backlog of orders grew 13% YoY and compared to the end of previous year respectively, as written in the comments at the side.

The breakdown shows that the consulting and system development segment grew significantly, while management services and BPO services, on the other hand, unfortunately did not receive large orders, resulting in a decline.

The sales breakdown of the consulting and system development segment will be explained later, but as you can see, sales revenue grew by more than 20% in this segment, and orders received also grew by the same amount.

In BPO management services, we tend to sign multi-year contracts for two or three years, especially for large contracts. Therefore, sales fluctuate with three years of orders coming in all at once or no orders coming. Unfortunately, H1 was the period that we did not receive orders.

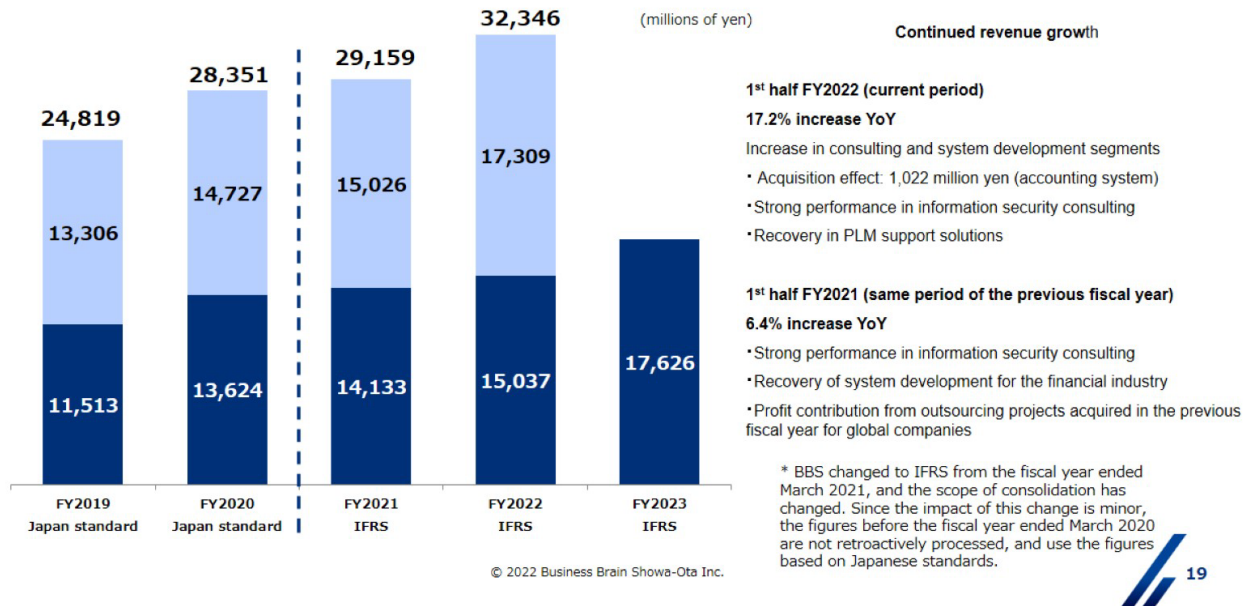
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[Financial Highlights] Sales Revenue



Next, I would like to talk about sales. As I mentioned earlier, sales revenue increased by 17.2% YoY.

As I said earlier, it is mostly due to the increase in the consulting and system development segment. As Komiya mentioned earlier in the mid-term business plan highlights, the sales of the two subsidiaries acquired in August last year and April this year of JPY1 billion is included, which was a special factor. That is why the chart looks bumped up a bit.

Excluding this effect, sales grew 10.4%. We estimated 8% organic growth in our plan, so I believe the result was slightly better than that.

In terms of segments, excluding the special factors mentioned earlier, information security consulting and PLM support solutions are growing. I will discuss this in detail in the segmental explanation that follows.

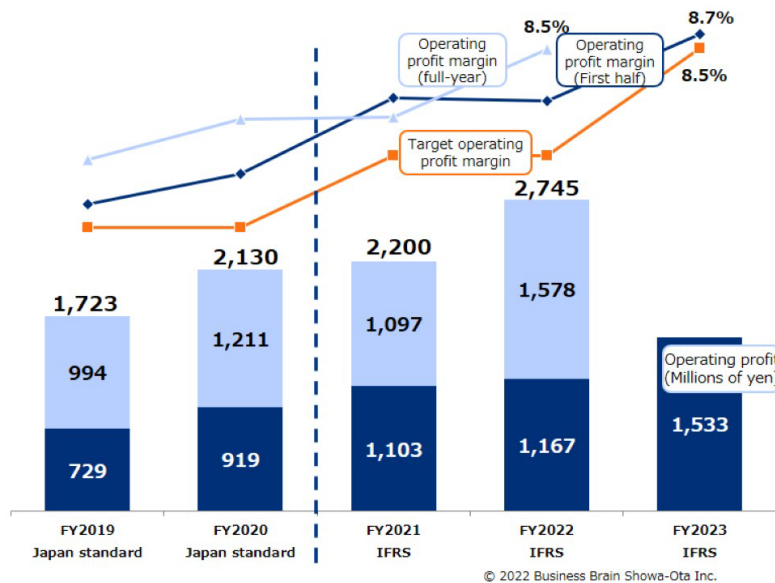
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[Financial Highlights] Operating Profit



Continued growth in profits

	Operating profit
1 st half FY2021 (previous interim)	1,167
Gross profit increase	743
Increase in SG&A expenses (- indicates an increase in expenses)	
Increase due to acquisitions (JW, BSC)	-223
Increase in personnel expenses	-160
Increase in hiring costs	-35
Decrease in depreciation and rent	53
Decrease in advertising expenses	57
Other	-69
Increase in SG&A expenses	-377
1st half FY2022 (current interim)	1,533

* 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 income increased 31% overall to JPY1.533 billion. In terms of the changes from H1 of the previous year, as shown in the table at the side, operating income for the previous interim period was JPY1.167 billion. By adding JPY743 million of an increase in gross profit due to increased sales and subtracting JPY377 million, which is an increase in SG&A expenses, operating income for the current interim period ended at JPY1.533 billion.

As described on this page, the largest factor for the change in SG&A expenses is an over JPY200 million increase associated with the acquisition of the subsidiary. As for the original organizational structure, the largest increase was in personnel expenses, which amounted to about JPY160 million. Also, as Komiya mentioned earlier, we are now strengthening mid-career recruitment and hiring of experienced workers, and there has been a noticeable increase in recruiting-related expenses as a result.

As for the reason for the decrease, we relocated our headquarters last fiscal year, and I think I explained several times there that we had to pay double rent while the office was being renovated. The depreciation or rent expense for the previous fiscal year had increased due to such factors, and this was eliminated this fiscal year, resulting in a decrease of JPY50 million as a reactionary decrease.

As for the advertising and marketing expenses below that, we spent a lot on branding, associated with the relocation of the headquarters last year, such as the new BBS logo on the shoulder and the creation of a corporate image video, etc., which led to an increase in expenses last year. This year, however, we have been able to reduce these expenses to a minimum, resulting in a decrease of about JPY57 million in expenses.

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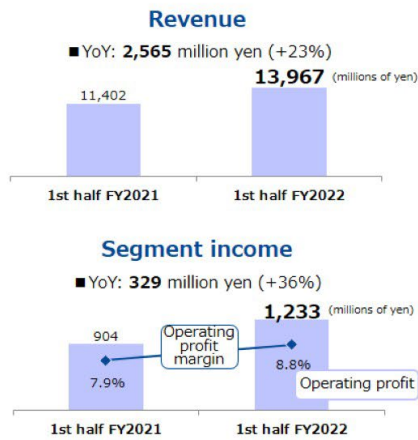


[Financial Highlights] Income (Loss) by Segment

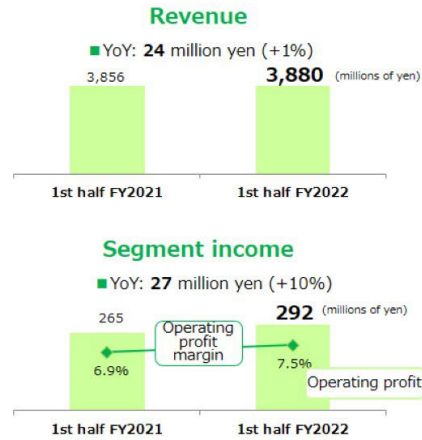


Significant increase in sales and profit in the consulting and system development businesses

Consulting and system development business



Management services (BPO) business



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Now I would like to explain the segments. First, in the consulting and system development segment, net sales increased JPY2.6 billion from the previous year to JPY14 billion. In percentage terms, this represents a growth of 23%. Profit was JPY1.2 billion, up JPY329 million or 36%.

On the other hand, in the management services, or BPO, business, sales revenue was JPY3.9 billion, an increase of JPY24 million, or 1%. Segment income was JPY292 million, an increase of JPY27 million or 10%.

I am sorry to repeat this again and again, but overall, the consulting and system development business is growing in a very favorable business environment.

Also, again, sales revenue has grown particularly due to the revenue increase effect of the acquisitions.

In the consulting and system development business, all sub-segments are performing well, and as a result, the profit margin is also improving significantly.

On the other hand, the management service business is struggling a bit. In particular, large-scale outsourcing services for global companies did not do well.

In terms of BPO, we are taking on the challenge of improving profit margins by introducing new technologies such as DX, RPA, and AI, as mentioned earlier. On the other hand, it is important to grow the scale of sales. However, it is difficult to rapidly increase sales of BPO, and in that sense, we are currently considering the M&A strategy that was mentioned earlier.

However, despite intensive study during H1, the current situation is not leading to good results. If you happen to know a good potential partner, I would appreciate if you could introduce them to us.

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[Financial Highlights] Consulting and System Development Business Details



	Revenue			Segment income		
	1st half FY2021	1st half FY2022	YoY Increase (decrease)	1st half FY2021	1st half FY2022	YoY Increase (decrease)
Accounting system consulting and system development	6,688	8,463	1,775 ↑	618	664	46 ↑
System development for the financial industry	2,670	2,713	43 ↑	105	161	56 ↑
Information security consulting	1,902	2,563	661 ↑	208	346	138 ↑
PLM support solutions	347	473	126 ↑	10	84	74 ↑
(Adjustment)	-205	-245	-40	-37	-22	15
Segment total	11,402	13,967	2,565 ↑	904	1,233	329 ↑

- Accounting system consulting and system development**
 Significant increase in sales due to revenue of 1,022 million yen from JW, which was acquired in August last year, and BSC, which was acquired in April this year. Profit and loss was slightly negative due to posting PMI expenses.
 Excluding the effects of acquisitions, sales increased by 11%, and the profit margin was 9%, maintaining the same level as the previous year despite quality issues in 1Q.
- System development for the financial industry**
 Increased sales of fund wrap projects. Realized a high profit margin as it is an in-house developed package product and efficiency of adoption has progressed.
- Information security consulting**
 Revenue and profit increased due to strong performance of information security consulting for small and medium-sized businesses and information security specialist training.
- 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 continue with a more detailed breakdown of the consulting and system development business. The first one is the accounting system consulting and system development business as seen at the top. At the risk of repeating myself, this includes the sales of the two acquired subsidiaries I mentioned earlier, Joyworks and BSC, which is JPY1.022 billion.

Unfortunately, as Komiya mentioned, these two companies have incurred PMI costs and other expenses, so they are in the red for H1. Therefore, although they contribute to sales, they have a negative impact on profit.

Excluding the effect of these two acquisitions, the organic sales increase would be 11%, and the profit margin would be about 9%. I apologize for the concern we caused everyone in Q1 regarding quality problems, but I believe we were able to recover sufficiently in Q2.

As a result, the profit margin of 9% is roughly on par with that of the previous fiscal year, so we believe that we were able to absorb such factors and achieve profit as usual during H1.

Orders are also favorable, as I mentioned earlier, and we expect sales to rise gradually H2 in response to these strong orders. In addition, as I mentioned earlier, the two acquired companies were in the red H1, but in H2, we expect them to overcome this deficit and become profit contributors, which I believe is another positive factor.

In that sense, we believe this business will continue to grow steadily. However, as we mentioned last year, this profit margin was achieved based on a fairly high operation rate. To put it bluntly, this profit margin was achieved based on the considerable overtime hours of the employees inside the Company.

From the management side, I think it is not realistic to maintain this high utilization rate or this high profit margin for a long time. We are now considering various ways to reduce the utilization ratio to a level that will allow for sustainable corporate development by actively increasing hiring and outsourcing, and accordingly we expect the profit margin to decline slightly. On the contrary, I think we have to do this.

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In general, there has been a lot of talk recently about exchange rates and inflation, but at present there is no direct impact on these issues. For future impact, the biggest factor would be the increase in personnel expenses. We have heard various rumors about wage increases, but since most of our costs are labor costs, in that sense, I think the increase in labor costs will be a negative factor in the future. We would like to take into consideration such factors in the future development of our business.

The second sector is system development for the financial industry. This business was originally called SES, or SE dispatch type business, and is essentially a business with a profit margin of about 5% or 6%.

However, as I have said in the past, I have been talking about the fund wrap system since last year, and we are now trying to expand into the business of selling packaged software, which is a little different from the SES business. In H1, we were able to obtain several fund wrap deals in a concentrated manner.

The fund wrap system is an in-house developed package, which naturally provides a considerable profit margin.

As the number of cases increased, the efficiency of the introduction process also improved, contributing further to profit. Although the sales have not changed much, the increase in profit is the result of the fund wrap business, of which we received some in H1.

However, unfortunately, we have not received many fund wrap projects for H2, so it will be difficult to achieve the same profit in H2 as in H1. We can say that it will return to normal level.

We are still continuing our sales activities, and we are beginning to see the results of these activities, so even if they do not contribute to sales in H2, we believe they will contribute to sales in the next fiscal year and beyond.

The fund wrap system is mainly marketed to mid-sized securities companies and regional bank-related securities companies, and since the market is originally for securities companies, we believe there is still room for growth, although the market itself is not that large.

Regarding the third one sector, information security consulting, the result is for a subsidiary of Global Security Expert Inc., which is now listed on the Tokyo Stock Exchange. For detail, please see their financial results announcement.

As you can see, sales and profit increased as a result of steady growth in information security consulting services and information security expert training for small- and medium-sized enterprises. We believe that this trend will continue for some time.

The fourth sector is PLM support solutions. This field suffered considerably in the previous fiscal year due to the lack of orders received in the previous fiscal year as a result of restructuring and other factors at the convenience of our mobility customers.

We have been focusing on a few customers in the automobile industry as our main target. However, based on the above reflections, we believe it is important to broaden our customer base into various industries. As such, we were engaged in activities to increase our sales channels to other industries last year. We have seen that these efforts are bearing fruit. In addition, orders from our original customers have also returned, so we have achieved double recovery.

I believe that the Company has grown considerably from last year's figures, and is now showing growth to the point where it is probably at the highest profit level this fiscal year in this field. However, one of our concerns is that we had a poor performance last year, and we had to release some of our partners in our restructuring

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effort to some extent. Now the customers are back, but it is difficult for partners to be back immediately as they have their own reasons. The problem of human resources, or rather production capacity, is now becoming a major bottleneck.

I believe that the trend will continue on an upward trajectory, but I think it will be difficult to achieve rapid sales growth or anything else. We believe that extending current level is the maximum we can do.

[Financial Highlights] Management Services (BPO) Business Details BBS

(millions of yen)

	Revenue			Segment income		
	1 st half FY20021	1 st half FY20022	YoY Increase (decrease)	1 st half FY20021	1 st half FY20022	YoY Increase (decrease)
HR and payroll related outsourcing	1,444	1,479	35 ↑	111	224	113 ↑
Outsourcing for global companies	927	869	-58 ↓	103	2	-101 ↓
Outsourcing for foreign companies	403	459	56 ↑	14	32	18 ↑
Onsite BPO	1,102	1,098	-4 →	60	37	-23 ↓
(Adjustment)	-20	-25	-5	-23	-3	20
Segment total	3,856	3,880	24 ↑	265	292	27 ↑

■HR and payroll related outsourcing
In the previous fiscal year, sales remained flat due to a lack of growth in orders received as a result of handling unprofitable projects. On the other hand, profit increased significantly due to improved efficiency by stabilizing unprofitable projects.

■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 would like to continue by explaining our management services business. Starting with HR and payroll related outsourcing on the top. This is also a business that had a bit of trouble due to unprofitable projects in the previous fiscal year. However, these issues were largely resolved last year, and as a result, in H1, the profit margin returned to a fairly high level, partly as a reaction to last year's poor performance and partly because productivity has increased as the work site has settled down.

However, it has taken some time for the sales structure to return to normal, and we were unable to receive large orders in H1, so sales did not grow much. We took various measures in H1 to improve our sales structure, etc., and we are now in a position to receive some large orders in H2, so we believe that we will gradually recover, although it will take some time.

The next sector is outsourcing for global companies. This, on the contrary, performed well last year. The biggest reason for good performance was that a subsidiary of ours, Payment Technology Japan, Inc., which is engaged in payment outsourcing, received a large order, which was quite profitable.

Unfortunately, that project came to an end this fiscal year, and the current figures show that profitability has deteriorated considerably.

The outsourcing for global companies business was originally conducted by the BBS main body. Unfortunately, in this field, we were not able to obtain many large new projects in H1, and as a result, sales did not increase. In addition, as we announced at the end of the previous fiscal year, there were expenses associated with the launch of a new BPO center in Kagoshima, which resulted in an overall decline in profit.

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The level was so low that we managed to make up the deficit.

However, if you look at the figures from Q1, we posted a JPY25 million loss, but in Q2 alone, we posted a JPY27 million profit, for a total of a JPY2 million gain. As you can see from the figures, we are gradually recovering, and we expect to see a gradual return in the future.

However, we still need to receive large orders in order to grow our business in the future, and to do so, we still need to acquire human resources and review the operation system. We consider outsourcing to global companies to be a priority area within our management services business, and although it may take some time, we intend to leverage our strengths to expand this business.

In the outsourcing for foreign companies business, we have a lineup of English-speaking human resources to support inbound services, i.e., Japanese subsidiaries and branch offices of foreign companies. This is a field in which we do accounting work, payroll, and so on.

However, considering the recent economic situation, the number of such inbound projects has not been increasing, and business has become very difficult. Therefore, we now target domestic companies as well, not necessarily inbound demand, to expand our marketing activities. As a result, due to our efforts, sales and profit both increased.

Our subsidiary, EP Consulting Service Corp, is in charge of this business. We have companies that are certified for certain business such as tax accountant firms and labor and social security firms under the umbrella of this subsidiary. Therefore, this subsidiary can take on the operations that can be done only by the certified company, which is one of our strengths. We are hoping to promote this point further to grow the business.

In onsite BPO, orders did not grow much in the current fiscal year and were maintained at the same level as the previous year. Profit, on the contrary, decreased due to the fact that an increase in the number of resignations led to an increase in hiring costs.

Since these businesses are on-site, so-called temporary staffing, the margins are quite thin, and when these small costs are incurred, it inevitably has a large impact on business performance.

Recently, the situation regarding resignation has calmed down a bit, so I don't think it will get any worse, but it will be difficult to recover this negative figure from H1.

As for the B/S, there are not many significant changes, so please allow me to skip the explanation today.

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[Earnings Forecast] Consolidated Operating Results



The full-year outlook remains unchanged despite strong progress in the second quarter

(millions of yen)

	Year ended March 31, 2023 1 st half results	Year ended March 31, 2023 Full-year outlook	Progress of full-year outlook	Year ending March 31, 2022 Full-year results	Year-on-year comparison
Orders received	19,117	40,000	47.8%	33,647	+18.9%
Revenue	17,626	36,000	49.0%	32,346	+11.3%
Operating profit	1,533	3,000	51.1%	2,745	+9.3%
Ratio of operating profit	8.7%	8.3%	–	8.5%	–
Profit before tax	1,534	3,000	51.1%	2,792	+7.4%
Profit	891	2,000	44.6%	1,810	+10.5%
Profit attributable to owners of parent	794	1,800	44.1%	1,764	+2.0%
Ratio of profit attributable to owners of parent	4.5%	5.0%	–	5.5%	–
Dividend per share	22 yen	45 yen	–	45 yen	–

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I would like to briefly touch on the earnings forecast. As you can see, for H1, the progress from sales revenue to income before income taxes to this point is generally at 50% of the full-year plan. The profit attributable to the parent company is 44%, which is half, but the original forecast weighed heavier in H2 rather than H1, as is the case in our industry. Therefore, we are about JPY200 million ahead of our operating income forecast.

Overall, as I have explained, the environment for orders received and other conditions are favorable, and we believe that we are on track to achieve our full-year forecast. We have had various IR meetings up until today, and we have received questions about whether we will make an upward revision, but at present, we have not been able to accumulate enough estimation internally to make an announcement of a revision certain. The TSE standard is an increase and decrease of 10% for sales and 30% for profit, but since the deviation exceeding this standard has not occurred, we did not make any revisions in Q2.

In the future, when we are more certain to close to this standard and have reached the level where we need to make a revision, we will do so in a timely manner.

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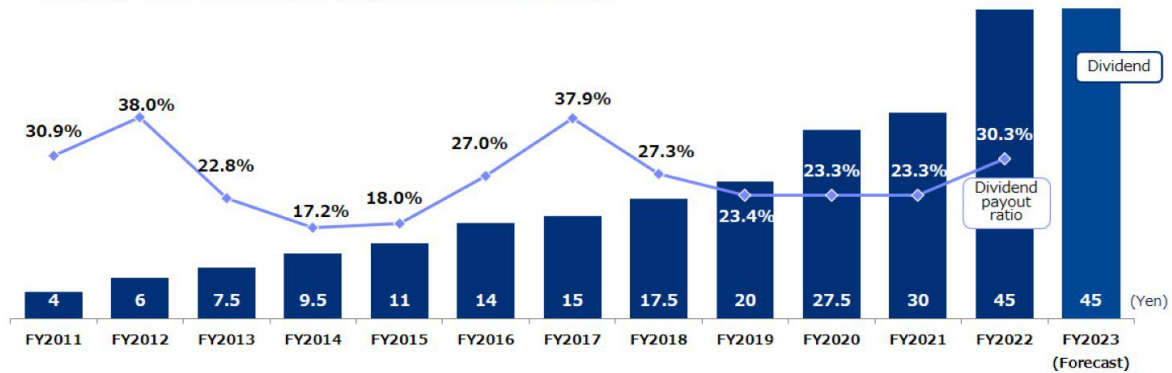
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[Earnings Forecast] Dividend



Interim dividend of 22 yen
 Annual forecast of 45 yen based on the basic policy of a dividend payout ratio of 30%



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

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Next is the dividend. As Komiya explained earlier, our dividend payout ratio is 30% in principle.

As I mentioned earlier, we are not yet ready to revise our full-year earnings forecast, so we have announced an interim dividend of JPY22 and a year-end dividend of JPY23, for a total annual dividend of JPY45, as announced at the beginning of the fiscal year.

However, since we have promised to pay 30%, we would like to adjust the final figure to 30% based on actual profit, and we would like to make the final figure of 30% by increasing or decreasing the dividend at the end of the year.

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- **Sale of shares of subsidiary Global Security Experts (GSX) (9/30 news release)**

GSX shares were sold to Kanematsu Electronics (KEL) on October 5, 2022.

No gain or loss is recognized on consolidation since the shares are transferred within the consolidated group.

- Number of shares sold: 469,000
- Sale price: 2,324 million yen
- Percentage of voting rights after sale: 51.14%

- **Buyback of shares (10/31 news release)**

BBS decided to buy back shares from the market.

- Number of shares to buy back, amount (Max.): 800,000 shares, 1 billion yen
- Buyback period: November 1, 2022 to October 31, 2023

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As for other topics, this was also mentioned by Komiya, but I would like to talk about it again as a review. We have made several press releases around the end of Q2. The first is the sale of shares in the subsidiary, GLOBAL SECURITY EXPERT, to KANEMATSU ELECTRONICS LTD.

As you can see, 469,000 shares were sold for JPY2.324 billion. This has lowered the percentage of voting rights in the subsidiary, GSX, from 65% to 51%. However, as we were questioned several times, this transaction is in the form of a transfer of shares within the consolidated group from an accounting perspective, so the so-called gain on the sale of shares will not appear on the consolidated P&L. It will appear in the non-consolidated financial statements, but not in the consolidated financial statements.

There are some related expenses, so in terms of consolidated P&L, there is a slight increase in expenses, but we consider such expenses to be minor.

However, looking to the future, the decrease in GSX's ownership interest will reduce the amount of profit to be taken from GSX in the future. Specifically, if we calculate roughly, about 14% of GSX's profit in H2 will be a decreasing factor, which means that the final profit will decrease by about JPY30 million.

Although we do not consider the impact of profit decrease to be large, as Komiya mentioned, there is a considerable impact on net assets. The estimated increase in net assets is about JPY1.5 billion, which is the sale price minus taxes, etc. As I mentioned earlier, this will lower ROE to the range of 12%.

The second is the purchase of treasury stock. This is also as Komiya explained earlier. We will purchase JPY1 billion of treasury stock over the next year. We are often asked where the JPY1 billion came from. Basically, based on our capital policy, we would like to increase ROE to some extent, but on the other hand, there is a rule that we must not influence the market when we buy stocks. In terms of our current trading volume, the maximum amount we can buy over the course of a year was limited to this JPY1 billion. We have set this maximum amount as the purchase price and the upper limit at this time, and we will consider other methods for future capital policy in due course while monitoring the situation.

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I apologize for the fast pace of this presentation, but I will conclude my explanation on a brief overview of the financial results and the earnings forecast. Thank you for your attention.

Moderator [M]: Thank you, Mr. Uehara.

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Question & Answer

Moderator [M]: Now we will move onto the question-and-answer session. If you have any questions, please raise your hand.

Participant [Q]: Thank you for the detailed explanation. I just have one point. You have explained various reasons for the strong performance, but even so, I have the impression that the profit in Q2 was quite substantial, even within the long history of your company. Can you tell me how I should understand this strong performance, for instance, whether the move has structurally smoothed things out within the Company, whether there are any changes taking place, or whether it was just a special factor?

Uehara [A]: Uehara will answer the question. Frankly speaking, I do not believe there were any particular special factors. I would say that relatively speaking, all segments are all in good shape. We have always had a mix of good and bad businesses, and in order to grow to some extent, we have been doing a variety of businesses, or as our founder put it, Yatsugatake Management, meaning doing the business having multiple pillars. As I mentioned earlier, there are some businesses that are not doing well, but many of our businesses are in good shape right now, and they are growing in a synergistic way.

The other factor is that, as Komiya mentioned, synergies among the group companies have become quite active, and in this sense, I believe that the fact that we are able to provide services in various areas to a single customer has led to the growth in our current business performance.

Participant [M]: Thank you.

Moderator [M]: Now, since there seem to be no more questions, this concludes the IR meeting of Business Brain Showa-Ota Inc. Thank you very much for your participation.

[END]

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1. Portions of the document where the audio is unclear are marked with [Inaudible].
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3. Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.
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