Together for Value

BBS

Business Brain Showa-Ota Inc.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2024

November 21, 2023

Event Summary

[Company Name]	Business Brain Showa-Ota Inc.
[Company ID]	9658-QCODE
[Event Language]	JPN
[Event Type]	Earnings Announcement
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2024
[Fiscal Period]	FY2024 Q2
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[Time]	13:30 – 14:15 (Total: 45 minutes, Presentation: 40 minutes, Q&A: 5 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]	15
[Number of Speakers]	3 Kazuhiro Komiya — President and CEO Hitoshi Uehara — Senior Executive Officer, CFO Yukinori Okada — Executive Director, Corporate Planning Dept., Administration Div.

Presentation

Moderator: Now that the time has arrived, we will now begin Business Brain Showa-Ota Inc.'s financial results briefing for Q2 of the fiscal year ending March 2024. I will start by introducing the three speakers from the Company present today. Mr. Kazuhiro Komiya, President and CEO.

Komiya: My name is Komiya. Thank you.

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

Uehara: This is Uehara. Thank you.

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

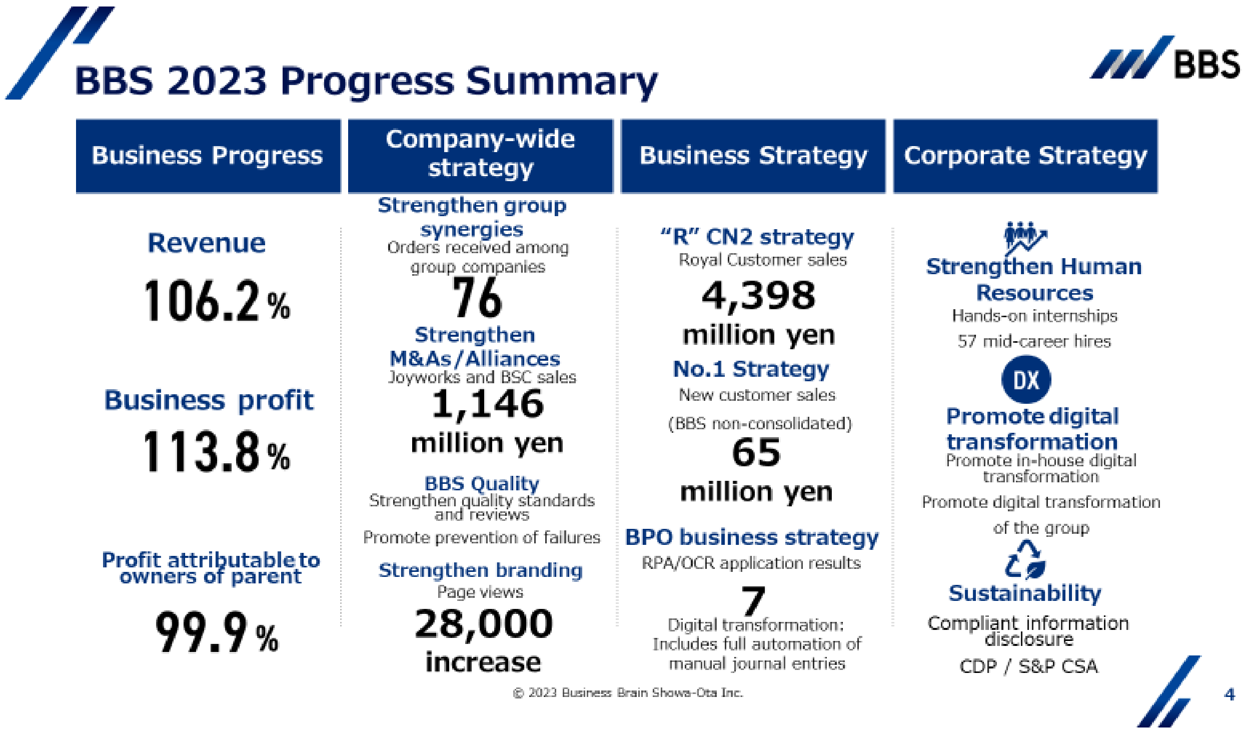
Okada: I am Okada. Thank you.

Moderator: Today, Mr. Komiya, President and CEO, and Mr. Uehara, Senior Executive Officer, will give the explanations. After that we will move on to the Q&A session. Please begin.

Komiya: Hello, everyone. I am Komiya, the President. Thank you very much for joining us today for our financial results briefing for FY2024. I will report on the progress of our current medium-term management plan, BBS2023, and then Mr. Uehara, Director and Senior Managing Executive Officer, will explain the status of 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.

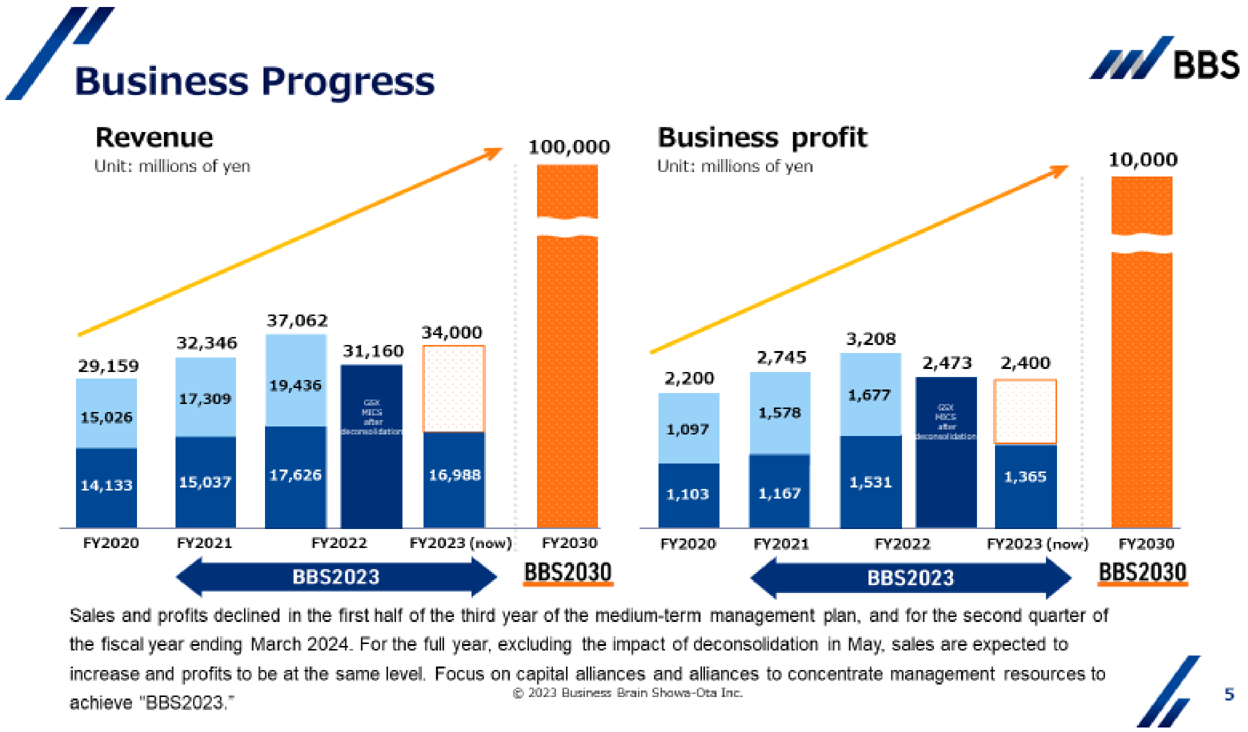
Our goals for 2030 are as follows: establishing a firm position as a comprehensive back-office supporter of companies; becoming a partner for our customers by implementing new management policies that match new work styles and new technologies; focusing on sustainability management and strengthening 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, H1 results for sales and profit generally exceeded the forecast. This ratio excludes Global Security Expert Inc. and MICS, which were deconsolidated in May.

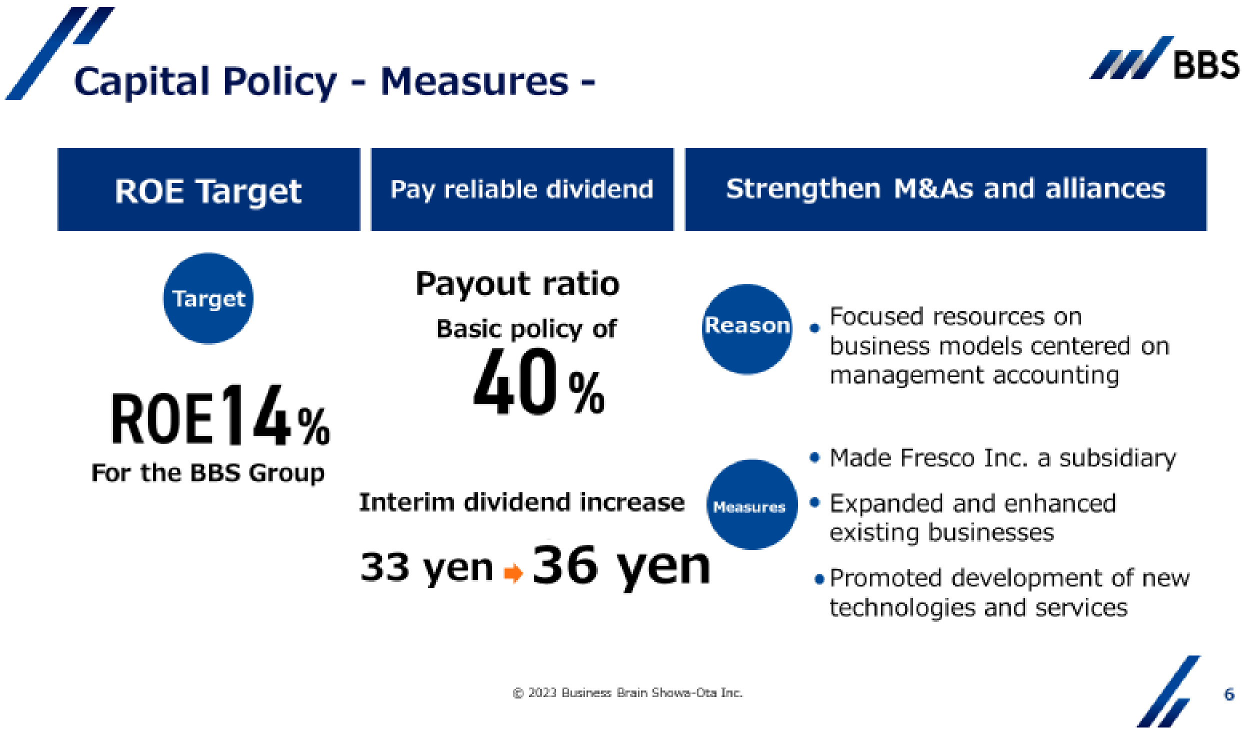
Regarding company-wide strategies, group synergies and M&A are showing good results.

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 yielding positive results, and we will continue to promote our activities.



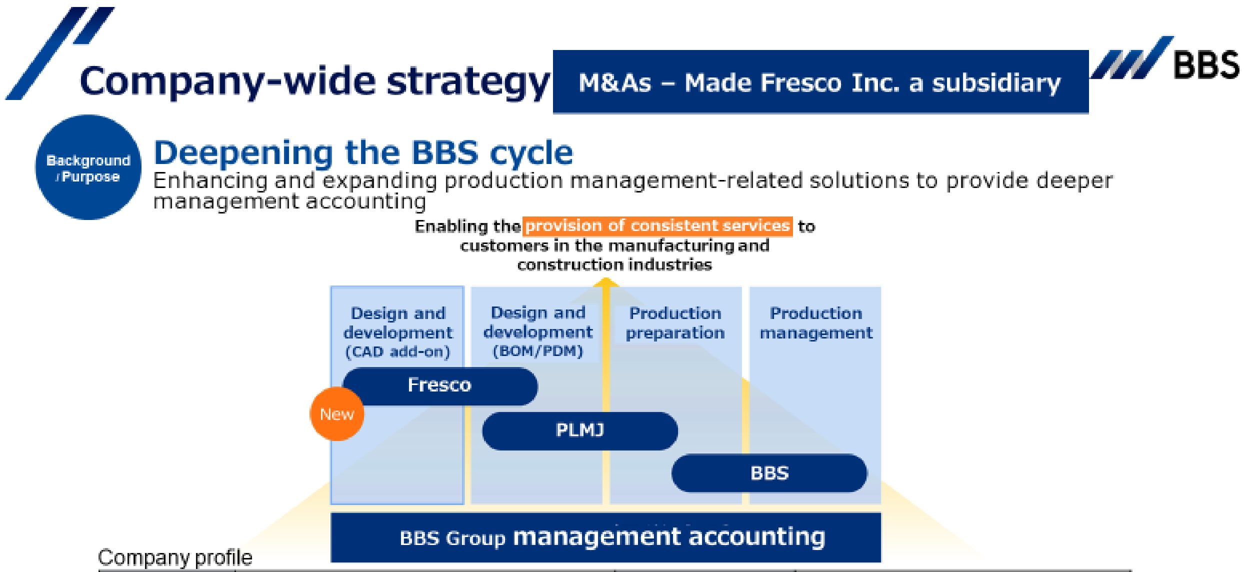
For the fiscal year ending March 2024, sales revenue for H1 was JPY16.988 billion and operating profit was JPY1.365 billion, both of which exceeded our initial forecasts. For reference, sales revenue and business profit as of the end of the previous fiscal year are also shown, excluding Global Security Expert, Inc. and MICS, which were deconsolidated in May. As you can see, we expect revenue to increase by nearly 10% and business income to remain about the same.

In order to clarify the reality of the Company's profit from its business activities, excluding one-time profit and loss items, the Company has used business profit from this time onward. We recognize that both sales revenue and business profit will meet our full-year forecasts for the fiscal year ending March 2024 of JPY34 billion in sales revenue and JPY2.4 billion in business profit.



In order to achieve our ROE target of 14%, we first announced in May that our dividend policy is based on a payout ratio of 40%. Based on this, the interim dividend has been increased from the initial forecast of JPY33 to JPY36. We will strive to return profits to shareholders and increase capital efficiency.

As stated in our mid- to long-term goal, Goal 2030, which is to become a comprehensive back-office supporter of companies, we intend to concentrate our management resources on a business model centered on management accounting and achieve sales of JPY100 billion in FY2030.



Company profile

Name	Fresco Inc.	Representative	Masashi Nagata, Representative Director and President
Location	39 Kanda Higashimasushita-cho, Chiyoda-ku, Tokyo	Number of employees	48
Business description	Provision of a wealth of experience and superior technology and know-how in CAD/PDM systems		

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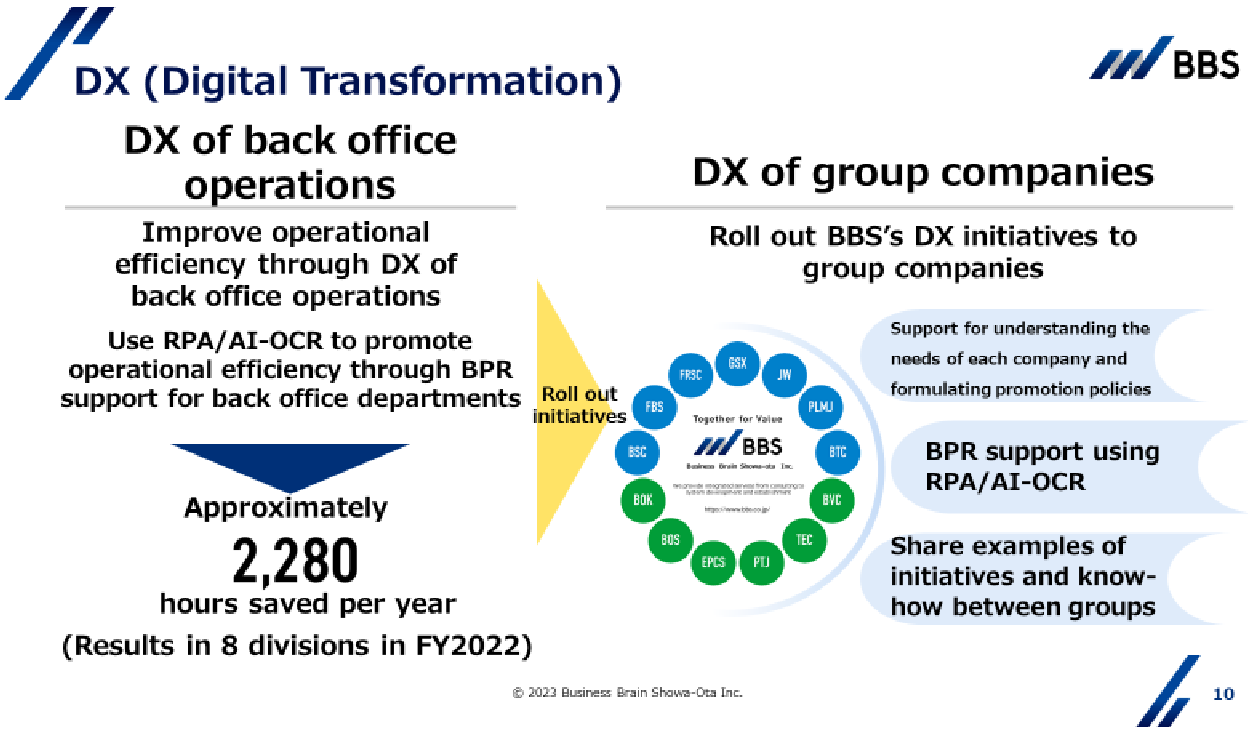
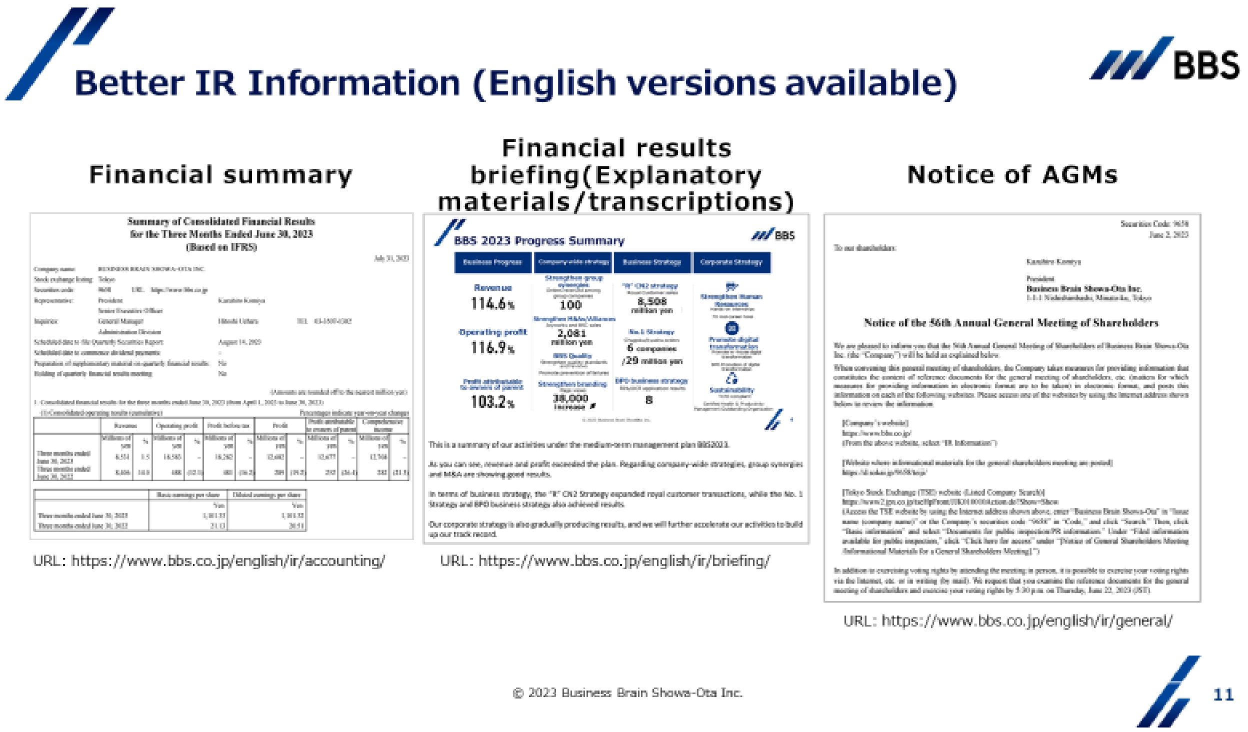
To achieve this goal, it is essential to secure human resources and expand our business partners, and we are actively seeking M&A alliances with companies that agree with our policies and strategies. In this effort, as recently disclosed on November 6, we are pleased to welcome Fresco Inc. as a new member of the BBS Group. It is a young company with an average employee age of 32. Fresco has an extensive track record and superior technology and know-how in CAD systems for design and development, and we believe that in the future we will be able to build a system that enables the BBS Group to provide integrated services for production management-related solutions to our customers in the manufacturing and construction industries.

In addition, with the addition of new members, from the current fiscal year we have been focusing on initiatives related to the reaffirmation of our corporate culture as part of our efforts to create an internal environment that embodies our corporate philosophy.

Specifically, we are moving forward with an executive exchange. In addition to explaining the significance of the founding spirit and company motto, I and other members of the management team sit in a face-to-face or in a group setting and exchange opinions on what employees feel on a daily basis, thereby encouraging them to reaffirm their sense of fulfillment in working for the BBS Group and to further deepen the sense of unity within the Group. In the post-workshop questionnaire, we received generally positive feedback, and we feel that the program is proving to be effective.



As for DX initiatives, we have been promoting DX for internal operations since last year. As a result of last fiscal year's efforts, the initiatives have resulted in a cumulative annual reduction of more than 2,000 hours and improved operational efficiency. In the future, we intend to roll out this system to all BBS Group companies to raise the level of DX throughout the Group and further improve productivity.



With regard to IR, as a prime listed company, we are vigorously working on English disclosure. We will continue to make efforts to disclose information to investors in Japan and overseas by making materials and transcripts of the financial results, the notice of convocation, and today's financial results briefing available in English as well.

That is all for the progress of our mid-term management plan, but I would like to conclude my presentation with a topic. BBS Group received the Best Partner Award from its business partner, Business Engineering Corporation, for its efforts in production management projects and contributions to sales promotion. We will continue to strengthen our collaboration with our partners and deepen our relationship to grow together.

In addition, as part of our social contribution activities, we support the Ryukyu Sports Academy, which aims to nurture world-class athletes, and sponsor the BBS Painting Contest, now in its sixth year, to provide an opportunity to foster imagination and expression in children, who will be the leaders of the next generation. The most recent award-winning works are listed on the cover of the BBS Group News, which is distributed to you.

That is all from me. Next, Uehara will explain the summary of our financial results. Thank you.

Uehara: Hello. I am Uehara, CFO. I will now give an overview of the financial results for Q2 of the fiscal year ending March 2024.

[Financial Highlights] Consolidated Operating Results

BBS

(millions of yen)

	1st half FY2022	1st half FY2023	Change from previous year	Earnings* forecast	Ratio to expected value
Orders received	19,117	17,124	-10.4%	-	-
Revenue	17,626	16,988	-3.6%	16,000	106.2%
Business profit	1,531	1,365	-10.8%	1,200	113.8%
Business profit margin	8.7%	8.0%	-0.7 points	-	-
Operating profit	1,533	19,519	1,173.3%	19,198	101.7%
Profit before tax	1,534	19,281	1,156.9%	18,955	101.7%
Quarterly profit	891	13,152	1,376.1%	13,169	99.9%
Quarterly profit attributable to owners of parent	794	13,138	1,554.7%	13,154	99.9%
Quarterly return on equity attributable to owners of parent	4.5%	77.3%	72.8 points	-	-
Quarterly diluted earnings per share	64.88 yen	1,139.26 yen	+1,074.38 yen	-	-

* Values announced as of July 31, 2023

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The first will be the highlights of the consolidated operating results. As Komiya explained earlier, Global Security Expert, GSX for short, has been excluded from the consolidation. As a result, each item presents a YoY decrease.

Orders received totaled JPY17.1 billion, a decrease of JPY2 billion, or 10.4%. Revenue was JPY16.9 billion, a decrease of JPY0.6 billion, or 3.6%, but an increase of approximately JPY1 billion compared to the forecast at the beginning of the period. Business profit, which we have decided to display this time, was JPY1,360 million, a decrease of 10.8%. The business profit margin also deteriorated by 0.7 percentage points. However, this is also an increase of JPY160 million compared to the initial forecast.

As for operating profit, the profit from the loss of control of the subsidiary, which is not shown here, but if you look at the income statement, such a profit is recorded, and operating profit regarding that is recorded at JPY18.1 billion. The resulting figure is a rather large JPY19.5 billion. Quarterly income attributable to owners of the parent company is also quite large, at JPY13.1 billion.

Due to the large amount of profit recorded from the loss of control of the subsidiary, the so-called operating profit has become very difficult to use as an indicator of the original operating status of the Company. Therefore, we have added a new item called business profit to the index to indicate normal operating conditions, in place of the previous item, operating profit. The relationship between business profit and operating profit, or rather the adjustment items, is shown on the next page. Business profit is calculated by subtracting the profit/loss caused by non-recurring factors from operating profit.

Adjustment from Business Profit to Quarterly Profit Before Tax

BBS

(millions of yen)

	1st half FY2022	1st half FY2023
Business profit	1,531	1,365
Gain from loss of control of subsidiaries	–	18,154
Other	1	–
Operating profit	1,532	19,519
Financial revenue	41	26
Financial expenses	62	16
Share of profit (loss) of investments accounted for using equity method	23	167
Loss (profit) on change in equity	–	-414
Quarterly profit before tax	1,534	19,281

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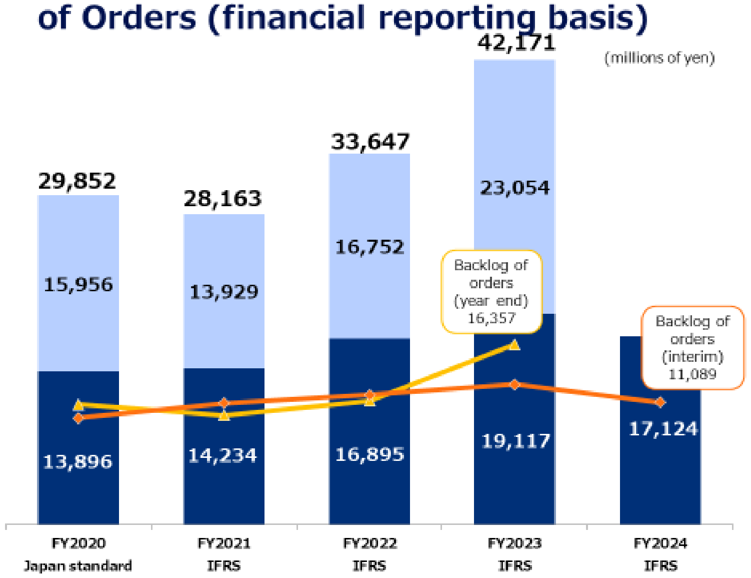
As you can see from this table, the only adjustment item for Q2 is the JPY18.1 billion gain on loss of control of a subsidiary mentioned earlier. If other items, such as impairment losses, are reported here, they will be subject to adjustment.

Now, I would like to talk specifically about the status of the orders.

[Financial Highlights] Orders Received and Backlog of Orders (financial reporting basis)

BBS



Decrease due to deconsolidation

Orders: 16% decrease YoY
Backlog of orders: 32% decrease YoY

- Consulting/System development
  ~Impact of deconsolidating GSX
- Management services (BPO)
  ~Impact of deconsolidating MICS
- 2Q 2023 GSX, MICS

  Orders received by both companies: 1,020 million yen

* BBS changed to IFRS from the fiscal year ended March 2021, and the scope of consolidation has changed. Since the impact of this change is minor, the figures before the fiscal year ended March 2020 are not retroactively processed, and use the figures based on Japanese standards.

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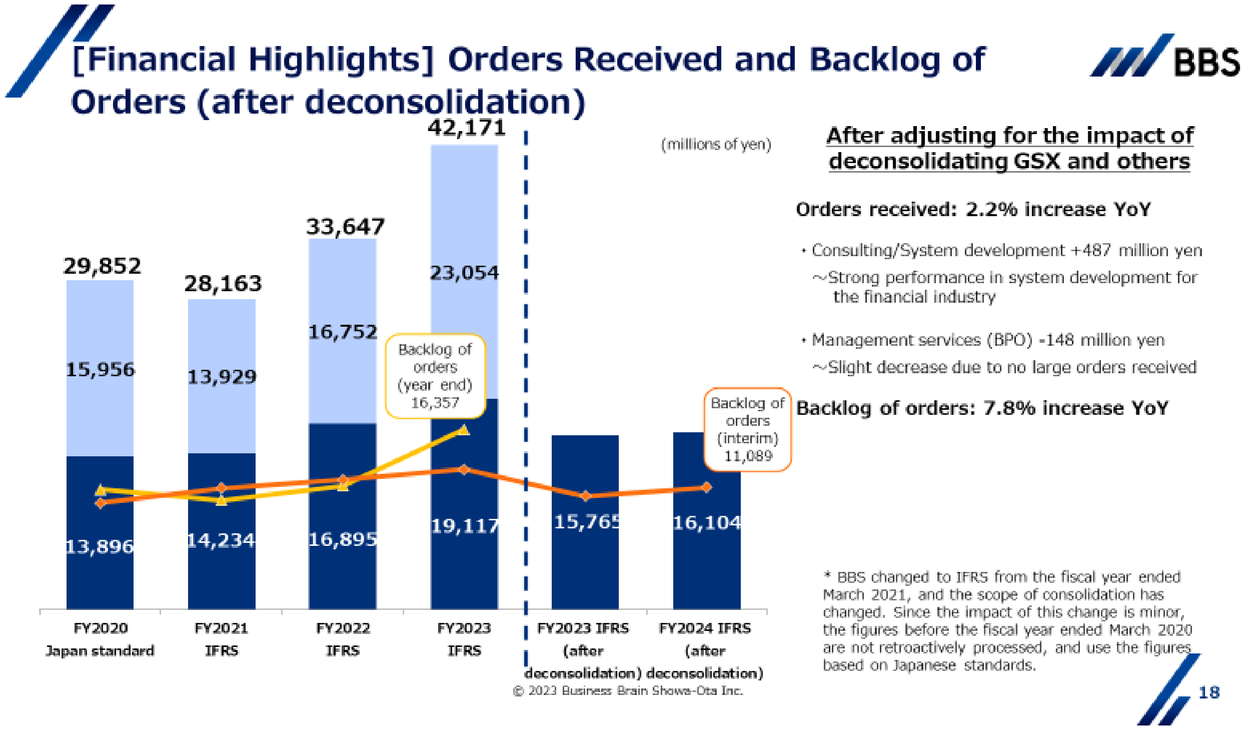
First, the status of orders received on a financial reporting basis, i.e., before adjustment for the effect of deconsolidation. Orders received decreased 16% YoY, and order backlogs decreased 32% from the end of the previous period. The largest impact on both of these is the deconsolidation of GSX and MICS, as I mentioned earlier.



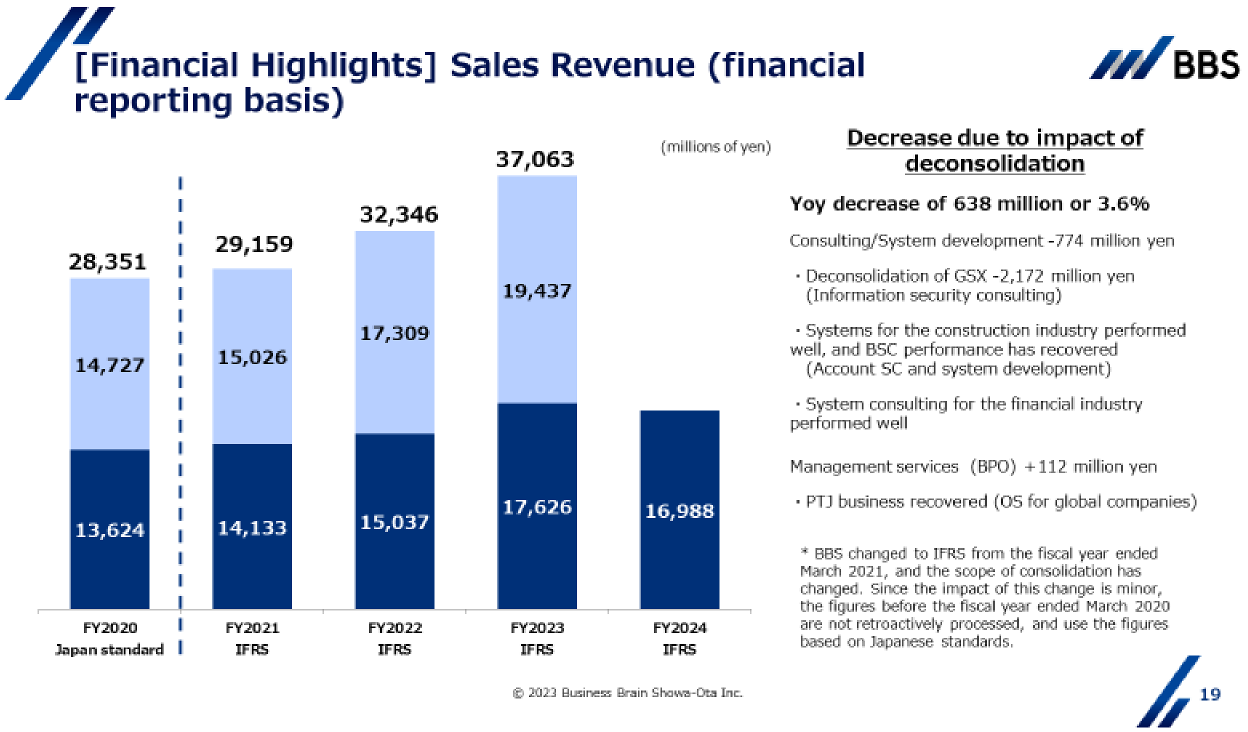
On the next page, here is a graph of comparison excluding the impact of these two companies. The dotted line in the middle of the graph shows the figures as of the end of the previous fiscal year on the right side of the dotted line, with the revised amounts based on the remaining existing business.

In addition, since H1 of the current fiscal year also includes sales from these two companies for the month of April, we have created this report in such a way that it can truly be compared with the remaining businesses. As you can see, when comparing the remaining businesses, orders received grew by 2.2% YoY, and the order backlog grew by 7.8% compared to the end of the previous fiscal year.

By segment, consulting and system development segment, which increased by JPY487 million, and management services or BPO segment decreased by JPY148 million.

The increase in the consulting and system development segment was mainly due to the strong performance of the system development business for the financial industry. Specifically, fund wrap-related orders remained strong, as well as the response to the new NISA. The increase in this work is the reason for the strong performance.

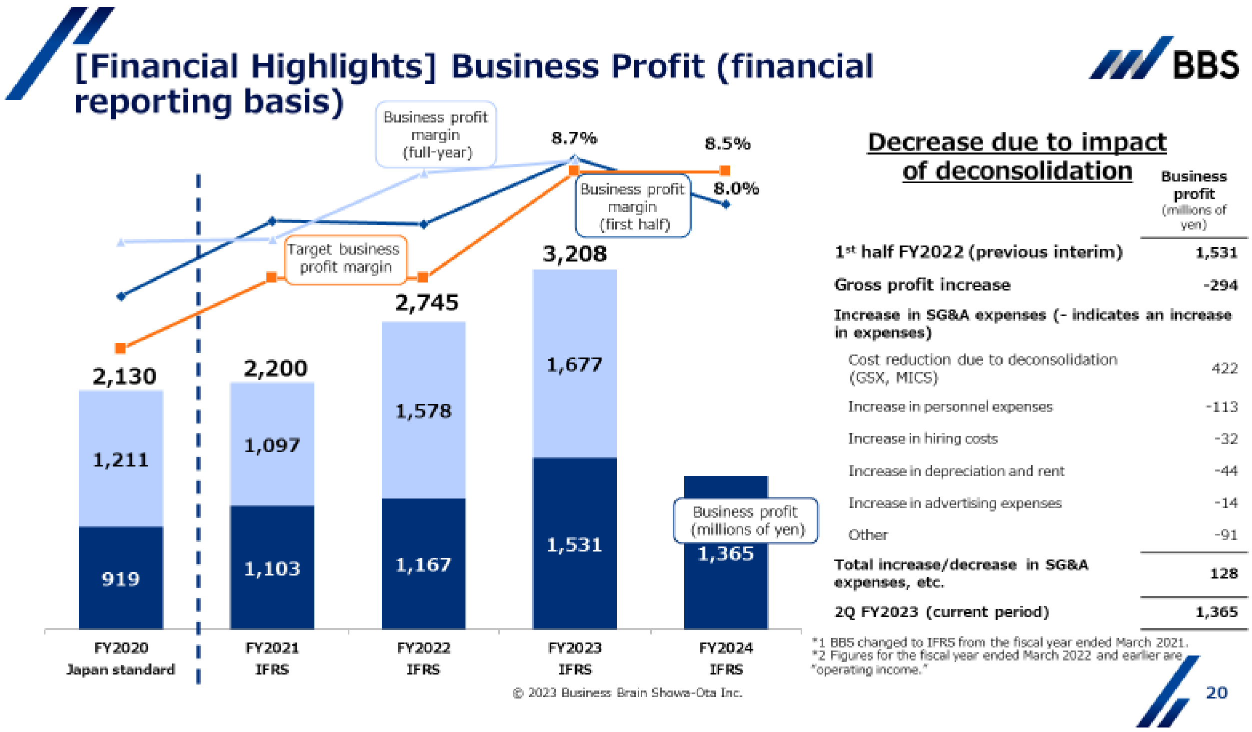
On the other hand, the management services or BPO segment, did not receive any large orders in H1 of the year, resulting in a decrease from the previous year. As I have mentioned several times in relation to management services, especially large orders are often multi-year contracts, so if we do or do not receive an order, it can cause quite a stir.



This is followed by sales revenue. On a financial reporting basis, before adjusting for the effect of deconsolidation, sales revenue decreased by JPY638 million or 3.6% YoY. This same segmentation also shows a decrease of JPY774 million in the consulting and system development segment and an increase of JPY112 million in the management services or BPO segment.

However, in the consulting and system development segment, the exclusion of GSX from the consolidation mentioned earlier had a negative impact of JPY2.1 billion. In contrast, the growth in the remaining existing businesses and recovery in the performance of subsidiaries have resulted in a considerable recovery and reduction in this decrease.

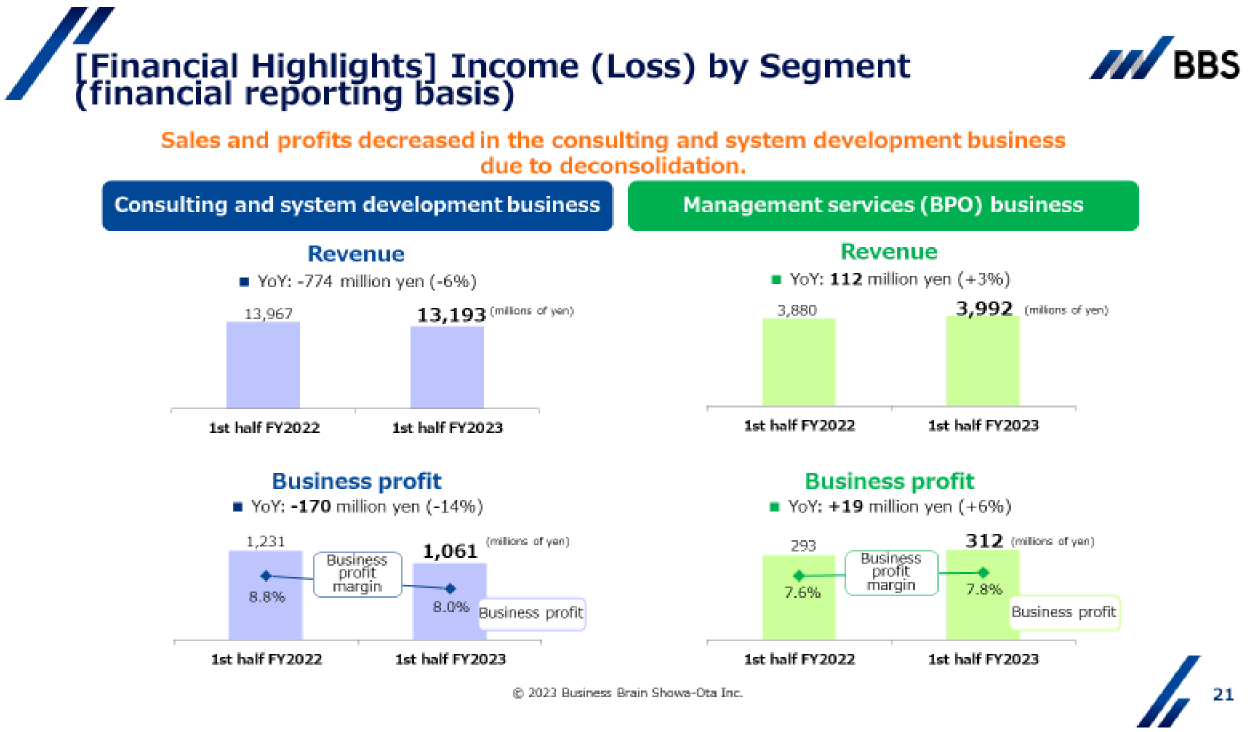
On the other hand, in the management services segment, revenue increased partly due to a recovery in the performance of subsidiaries. I will explain the details in more detail in the segmentation section that follows.



Next is business profit. I would like to explain this as well, first on a financial reporting basis before adjusting for the impact of deconsolidation. Gross profit decreased by JPY294 million YoY due to the impact of deconsolidation and lower sales.

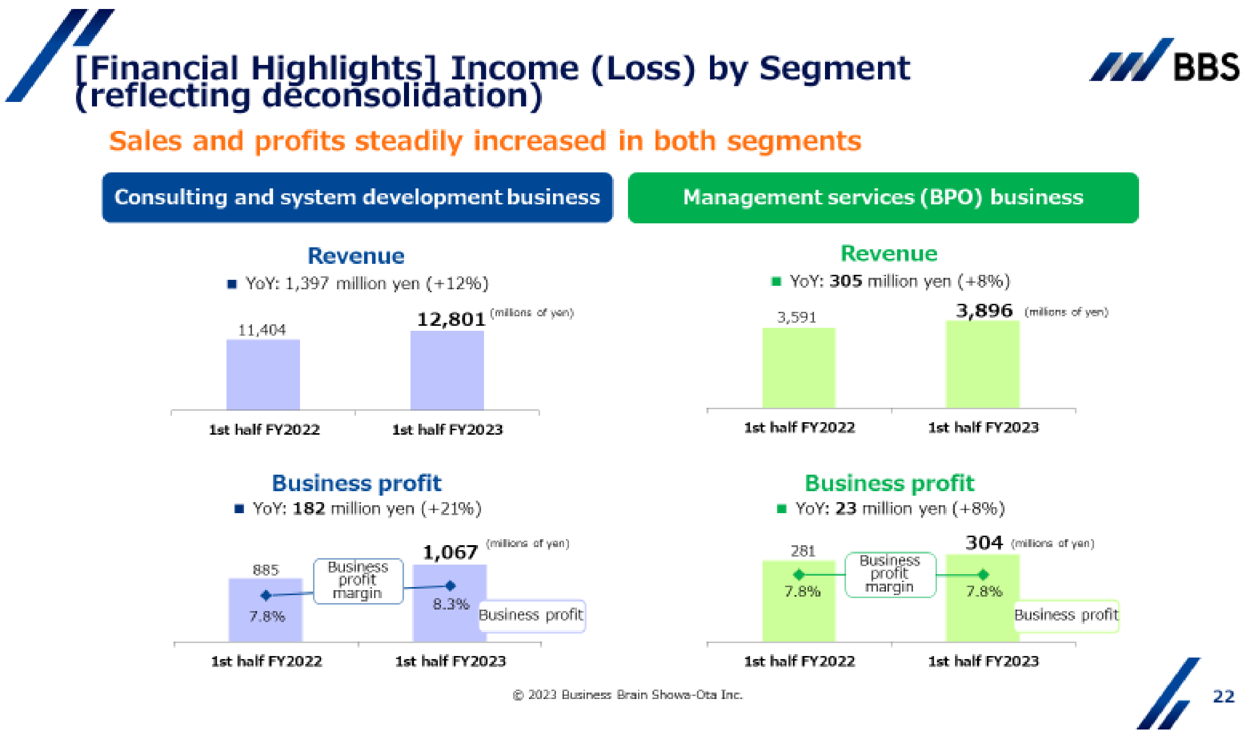
As for SG&A expenses, the exclusion of two companies from the consolidation resulted in a decrease of JPY422 million in SG&A expenses. On the other hand, there are increases in personnel costs due to base increases in existing and remaining businesses, or increases in personnel due to the increase in the number of people, and other such things, as well as expenses related to recruitment. These kinds of things are increasing. In total, if we add these increases in expense to the decrease in expenses, which was JPY422 million... My apologies. As a whole, its SG&A expenses decreased by JPY128 million. As a result, the total of the decrease in gross profit and the reduction in SG&A expenses, which I mentioned earlier, resulted in a decrease in profit of JPY166 million, and business profit of JPY1,531 million for the previous interim period decreased to JPY1,365 million for the current interim period.

As for business profit margin, one of the negative factors is that GSX, which has a relatively high profit margin, is no longer a part of the business. As I mentioned earlier, the cost of goods sold was also affected by the base increase. As a result, the point of profit margin has decreased overall. As for the impact of this base increase, we are gradually reflecting it in the selling prices of new contracts, or rather, We are negotiating a price increase with our suppliers. Especially for maintenance, BPO and so-called stock type business, it is difficult to negotiate the price unless it is held once a year or at the time of contract negotiation. Therefore, we have been raising the base price since April, but there is a slight delay in reflecting the selling price in some cases. We will continue to vigorously revise selling prices in H2 of this fiscal year.



Now let us look at the performance by segment. We would like you to see this also on a financial reporting basis first. GSX from the consulting and systems development segment and MICS from the management services or BPO segment. There is an exclusion of consolidation.

However, MICS is considerably smaller than GSX, and the management services or BPO segment has been largely unaffected. This is where the solely consulting and systems development segment has been a factor in the decline in revenue and business profit on sales.



We have provided segment information adjusted for the impact of this deconsolidation on the next page, so if you take a moment to compare the two companies, I think you can see the impact of the two companies.

Adjusting for the impact of the deconsolidation, the view is quite a bit different. I think you can see where the consulting and systems development segment is growing significantly.

On the other hand, as I mentioned earlier, the management services or BPO segment was not affected much by MICS and did not change much from before the adjustment. It is steadily growing.

[Financial Highlights] Details of Consulting and System Development Business (financial reporting basis)

BBS

(millions of yen)

	Revenue			Business profit		
	1st half FY2022	1st half FY2023	YoY Increase (decrease)	1st half FY2022	1st half FY2023	YoY Increase (decrease)
Accounting system consulting and system development	8,463	9,450	987	662	836	174
System development for the financial industry	2,713	3,108	395	161	238	76
Information security consulting	2,563	391	-2,172	346	-6	-352
PLM support solutions	473	471	-2	84	27	-57
(Adjustment)	-245	-227	18	-22	-34	-12
Segment total	13,967	13,193	-774	1,231	1,061	-170

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Now, I would like to break down this breakdown further. The first will be the consulting and systems development segment. This is a table based on financial reporting, and I have provided a table excluding the impact of GSX on the next page, so I will explain the contents on the next page.

[Financial Highlights] Consulting and System Development Business Details (GSX deconsolidation)

BBS

(millions of yen)

	Revenue				Business profit			
	1st half FY2022	1st half FY2023	YoY Increase (decrease)		1st half FY2022	1st half FY2023	YoY Increase (decrease)	
Accounting system consulting and system development	8,463	9,450	987	↗	662	836	174	↗
System development for the financial industry	2,713	3,108	395	↗	161	238	77	↗
PLM support solutions	473	471	-2	→	84	27	-57	↘
(Adjustment)	-245	-228	17		-22	-34	-12	
Segment total	11,404	12,801	1,397	↗	885	1,067	182	↗

■ **Accounting system consulting and system development**
Sales increased due to a recovery in BSC's performance, and profit increased due to a rebound from last year's quality issues.

■ **System development for the financial industry**
Sales and profits increased due to an increase in projects owing to system reform and strong performance in fund wrap projects, which are BBS packages.

■ **PLM support solutions**
Sales revenue was flat, and profit decreased due to the impact of higher personnel expenses.

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This is the table excluding GSX Company. In effect, I think there was a line on the previous page for a business called information security consulting, but the table looks like it has been taken directly from that line, and the monetary amounts for the other three businesses have not changed.

The first one is the accounting system consulting and system development business at the top of the list. This increase was due in part to the growth of the parent company's construction-related business, and in part to the sales growth of BSC, a subsidiary acquired last year.

Profitability also increased significantly due to the increase in revenues. However, looking back on the previous fiscal year, the amount of the reserve for the loss-making projects in the previous fiscal year was approximately JPY150 million and the actual increase was not as large as the amount of the reserve.

This is due to the fact that although we are not in the red, unfortunately there have been a number of projects that have been underperforming, and these projects have eaten into our profits.

In addition, as I mentioned earlier, we have been expanding our offices to accommodate the increase in personnel, which has resulted in a slight increase in office-related expenses.

Since the underperforming projects are moving toward convergence, we do not expect any further significant erosion of profits in the future. However, since sales activities are still affected by the occurrence of underperforming projects, I think it will take a little more time before we can fully return to the situation we had last year. However, the reality is that we are moving in the right direction.

As I mentioned earlier, we have a large backlog of orders, and we can expect to receive orders in Q3.

On the other hand, the overall trend in recent years has been for development projects to become smaller in size, and because smaller projects inevitably have shorter project durations, it has become more difficult to anticipate long-term orders.

Orders for Q4 and for the next fiscal year are now in full swing, and we will be able to see the final financial figures and trends for the next fiscal year from this point on.

Next is system development for the financial industry. As I mentioned earlier in the orders received section, sales of fund wrap projects continue to be strong, and the new NISA-related system reforms are also contributing to the strong performance.

Since the new NISA will be launched in the next fiscal year, our work is almost at the end of its cycle, and we expect that the pace of increase in sales and profit in H2 of the year will be slightly slower than in H1.

Then, there is the PLM support solution. In fact, the previous year's performance was so good that this year's results are a bit of a reaction to that performance. This will be where orders are not growing much and sales are not increasing.

As I have said in the past, one of the problems with this business is that it is highly dependent on a few specific customers, and as a result, sales fluctuate considerably depending on the condition of customers.

In addition, we consider this to be a priority business, and in that sense, we have been strengthening our human resources considerably since the last fiscal year. We have also increased the number of staff, including hiring, etc., and in such circumstances, there was a slight decrease in orders received, and the decline in the utilization ratio was quite large, which had a negative impact on our business performance.

On the other hand, demand for the production management systems that BBS, the parent company, is engaged in, remains strong, so although the performance of PLM alone was a bit poor this fiscal year, we believe that this is a temporary situation.

As Komiya mentioned earlier, with the acquisition of Fresco, we have established a system that enables us to provide integrated services from CAD to cost management and production control. I am looking forward to the further growth of this business as such synergies emerge in the future.

[Financial Highlights] Management Services (BPO) Business Details

BBS

(millions of yen)

	Revenue			Business profit		
	1st half FY2022	1st half FY2023	YoY Increase (decrease)	1st half FY2022	1st half FY2023	YoY Increase (decrease)
HR and payroll related outsourcing	1,479	1,572	93 ↗	224	261	37 ↗
Outsourcing for global companies	869	978	109 ↗	2	31	29 ↗
Outsourcing for foreign companies	459	496	37 ↗	32	24	-8 →
Onsite BPO	1,098	968	-130 ↘	37	44	7 →
(Adjustment)	-25	-22	3	-2	-48	-46
Segment total	3,880	3,992	112 ↗	293	312	19 ↗

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Next, I would like to talk about the management services or BPO segment. I have also provided the figures excluding MICS on the next page, so I would like to proceed with this as well.

[Financial Highlights] Management Services (BPO) Business Details (excluding MICS)

BBS

(millions of yen)

	Revenue			Business profit		
	1st half FY2022	1st half FY2023	YoY Increase (decrease)	1st half FY2022	1st half FY2023	YoY Increase (decrease)
HR and payroll related outsourcing	1,479	1,572	93	224	261	37
Outsourcing for global companies	869	978	109	2	31	29
Outsourcing for foreign companies	459	496	37	32	24	-8
Onsite BPO	809	873	64	25	37	12
(Adjustment)	-25	-22	2	-2	-49	-47
Segment total	3,591	3,896	305	281	304	23

■**HR and payroll related outsourcing**
Sales increased due to a recovery in orders due to organizational improvements. Profits increased due to the impact of productivity improvement measures.
■**Outsourcing for global companies (supporting BPO for highly specialized business operations, etc.)**
Sales and profits increased due to large-scale orders received in the previous fiscal year and steady performance at payment-related subsidiaries.
■**Outsourcing for foreign companies**
Sales increased due to an expanded customer base from bilingual projects for domestic companies, but profits decreased due to increased hiring.
■**On-site BPO**
Sales and profits increased due to steady orders from major customers and reduced hiring.

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This is the status of management services after the exclusion of MICS. MICS was included in the on-site BPO business in the bottom fourth of this table. With the exclusion of MICS this time, the on-site BPO business has been expanded to include a subsidiary, Techno Ware Think, which is mainly engaged in call center operations.

Now let’s take a look at the breakdown. The first one is outsourcing of personnel and payroll related matters at the top. We have been struggling to establish a sales structure since last year, and it has been difficult to obtain orders and increase sales.

Although sales growth itself has been small this time, we have made steady progress in improving operations inside the Company, and as a result, the profit margin has improved. Our sales structure is gradually being put in place and orders are being received, so we expect sales to increase in the future.

However, because it is a BPO, unlike development, sales growth is not rapid, but rather gradual.

The next section is on outsourcing for global companies. The settlement subsidiary, which performed poorly in the previous fiscal year, has recovered to some extent, resulting in an increase in both sales and income.

In the BPO business of the parent company, it is difficult to get large projects, but we are focusing on the high value field, which is our forte, or the slightly more difficult BPO field, and are now pursuing a strategy of expanding our business by starting small and expanding from there.

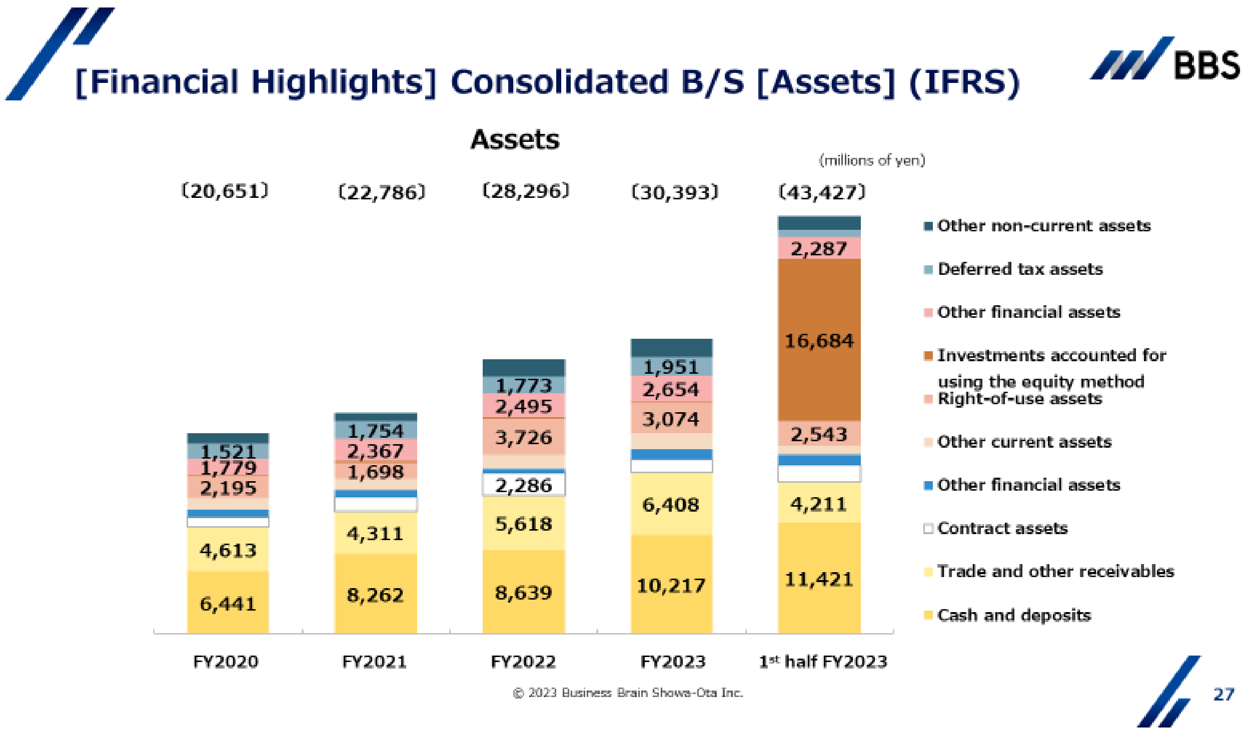
The third is outsourcing to foreign companies. With staff who can do their work in English, this is a business that provides accounting and payroll services for inbound companies, i.e., foreign companies that have established subsidiaries or branches in Japan.

Due to the current situation, there is no inbound investment in Japan, and the number of projects is not increasing. We are currently developing sales activities targeting small and medium-sized domestic companies in addition to such foreign companies.

The results of these efforts have been seen to some extent, and sales have increased. However, H1 of this fiscal year saw a slight decrease in profit due to a slight increase in recruiting costs and other expenses.

In the on-site BPO business, orders from major customers have been strong, resulting in an increase in both sales and profit. Profits, in particular, are up compared to the previous interim period, due in part to the fact that fewer employees retired, which helped to compress recruiting costs.

On-site BPO is more of a temporary staffing type business, so gross profit margins are small, and if a person leaves the Company in such a situation, the recruitment cost will have a significant negative impact. We have been able to successfully retain people this time, which has led to an increase in profit.

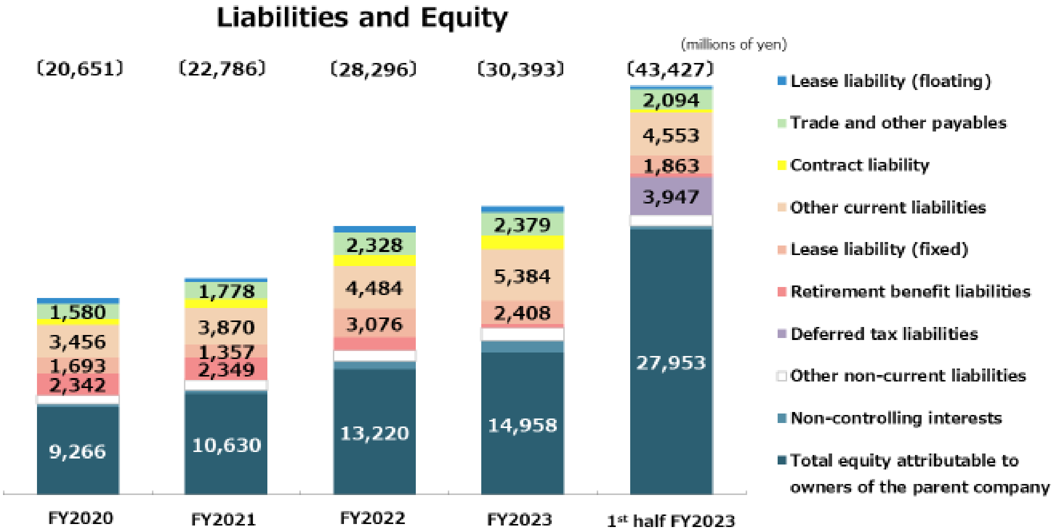


From here, I would like to briefly explain the balance sheet as well. First of all, in the assets section, as you can see, there has been a major change: GSX has been accounted for by the equity method. At the same time, GSX's shares must be valued at market value, which is required by accounting standards, but some part has changed to valuation to market value, and the number of investments accounted for by the equity method has increased significantly.

In addition, there is an increase in cash deposits due to proceeds from the sale of GSX, which amounted to about JPY2 billion or so. On the other hand, trade and other receivables have decreased, but this is due to seasonal factors, as accounts receivable tend to stand up at the end of March due to acceptance inspection. Compared to March, September is slightly less, which is not so unusual and is a seasonal factor.

[Financial Highlights] Consolidated B/S [Liabilities and Equity] (IFRS)

BBS



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Now, on the debt and equity side, there are profits which are partly due to the loss of control of the subsidiary that I mentioned earlier, which was JPY18.1 billion. The total equity attributable to owners of the parent company and, roughly speaking, shareholders' equity, but this portion has increased significantly.

There's another increase in deferred tax liabilities. The deferred tax liability has been raised by the unpaid taxes on the valuation gains resulting from the mark-to-market revaluation of GSX stock. This is a little rough, but that is all for the balance sheet situation.

[Earnings Forecast] Consolidated Operating Results

BBS

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

(millions of yen)

	Year ended March 31, 2024 1st half results	Year ended March 31, 2024 Full-year outlook	Progress of full-year outlook	Year ending March 31, 2023 Full-year results	Year-on-year comparison
Orders received	16,104	37,000	43.5%	42,171	-12.3%
Revenue	16,988	34,000	50.0%	37,063	-8.3%
Business profit	1,365	2,400	56.9%	3,206	-25.1%
Business profit margin	8.0%	7.1%	–	8.7%	–
Operating profit	19,519	20,598	94.8%	3,208	+542.1%
Profit before tax	19,281	20,525	93.9%	3,241	+533.3%
Profit	13,152	14,309	91.9%	2,067	+592.3%
Profit attributable to owners of parent	13,138	14,279	92.0%	1,838	+676.9%
Ratio of profit attributable to owners of parent	77.3%	42.0%	–	5.0%	–
Dividend per share	36 yen	75 yen	–	48 yen	–

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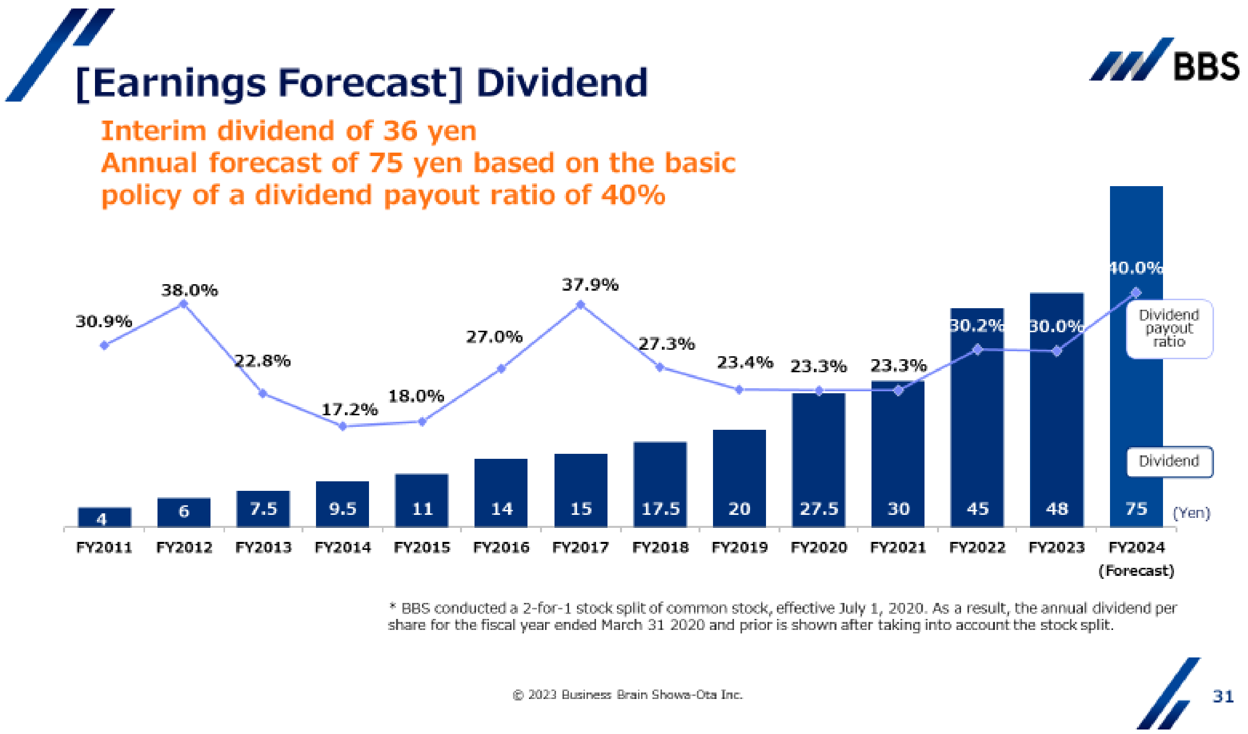
I would like to continue with a brief explanation of the earnings forecast. As for the earnings forecast, we believe that progress in Q2 was generally favorable, but in the end, we have decided to leave the full-year forecast unchanged.

As you can see, in Q2 of this fiscal year, sales revenue progressed roughly 50% and business profit 57%. In terms of profit, we are about 10% ahead of the forecast.

Orders, on the other hand, have been favorable compared to the previous fiscal year, as I mentioned earlier. However, orders have tended to be skewed toward H2 of the year, which is a little weak compared to the annual budget, from our current perspective. We are considering that the budget is a bit high to begin with, but we think it is slightly weak when looking ahead to growth in the next fiscal year and beyond.

As I mentioned earlier, orders for Q4 and activities for orders for Q4 are still in the process of being received, and we will make a final judgment on the earnings forecast after observing these situations a little more.

Also, regarding the impact of the recent acquisition of Fresco, we are currently planning to consolidate Fresco from Q3 of this fiscal year. However, since the scale of the business is not that large, we estimate that there will be an increase of approximately JPY100 million to JPY200 million in sales revenue. In terms of profit, we expect that there will be almost no impact on profit due to the additional PMI expenses associated with the consolidation, or rather, the acquisition.



Lastly, the dividend. As I mentioned in the last newsletter, we have adopted a new dividend policy of 40% of the consolidated dividend payout ratio from this fiscal year. Based on this new policy, we have increased the interim dividend by JPY3 to JPY36. At the end of the fiscal year, we plan to maintain the current price at JPY39 for the time being and raise it to JPY75 for the year.

This policy will also apply to the year-end dividend. If profits continue to grow steadily, the year-end dividend will be calculated in accordance with the dividend policy, excluding the aforementioned one-time gains and losses from the loss of control of the subsidiary, as mentioned earlier. We would like to determine the year-end dividend after re-calculating the consolidated dividend payout ratio to be 40%, excluding such one-time profit/loss items.

This was the explanation of the financial results and the earnings forecast. Thank you very much for your attention.

Moderator: Thank you.

Question & Answer

Moderator [M]: We will now move on to the Q&A session. A full transcript of this financial results presentation, including the question-and-answer session, will be made available to the public. Therefore, please note that your question along with your name and affiliation will be made public if provided. If you wish to remain anonymous, you may omit your name. Now let us begin.

Yes, now, over there, the second one from the back.

Participant [Q]: Thank you for your explanation. I would like to ask you about your outlook for the full fiscal year, as detailed as it may be. At the beginning of the term, the dividend was JPY33 and JPY39, and JPY72, I think, and you said that the dividend payout ratio was 40%, so I think that at the stage of your plan, you planned for profits in H2. In that sense, I would like to know if there are any signs of deterioration in H2 of the fiscal year compared to the beginning of the fiscal year based on the current situation.

Company Representative [A]: Yes. Thank you for your question. As for the dividend payout ratio, we have set the dividend payout ratio at 40%, so we have announced the upper and lower dividends at JPY33 and JPY39, as you are aware, based on the original profits for H1 and H2 of the fiscal year, 40% and 40%, respectively.

As for H2 of the fiscal year, some may point out that the increased portion will be included in the year-end forecast, but I do not think there are any negative factors. As I mentioned earlier, we would like to see the status of orders and other factors in the future, and we do not expect a major change in the earnings forecast. If you are asking if there is something that would eat into the profit margin in H1 of the year, I don't envision that happening at this point.

Participant [Q]: Thank you. Another point is that I think we can kind of see the numbers of mid-term plan for this term. I think that we will probably be conscious of 2030 next, or another mid-term plan will come in between the two. If we take a rough breakdown of the mid-term plan figures, we can see that sales and profits will increase by roughly 20% per year, and that the increase will be roughly threefold.

If so, looking at the performance of other companies in the industry today, many of them seem to have plateaued after years of growth, but if your company is going to continue to grow by 20% for the next seven years, you will have to be very aggressive. I wonder if you could tell us a little bit about how your company plans to fight, if you could tell us as much as you can.

Company Representative [A]: Thank you for your question. As you said, we can reach our goal of 20% growth, but due to various factors, we have started BPO as a business field and are aiming for 30% growth to some extent.

Next was the security field, which was included in the medium-term plan, but now that the Company has gone public, it seems to have hit a little bit of a plateau. From this year, we are planning to focus on the production management field, and we have been making M&As and forming alliances with other companies. In this sense, we are considering M&As and alliances for the areas that will not reach 10% or 15% growth.

In terms of industries, we have established a certain degree of expertise in mobility and infrastructure, but next time, we would like to deepen our investment in the following areas of focus, which was good this time, and hope to grow as a business model.

In this sense, I think that the purpose of your question is that if the existing areas are growing to some extent, albeit at a slightly lower rate, then the areas that are not being reached will be supplemented by new business fields, industries, and so on.

Participant [M]: Thank you very much.

Moderator [M]: Thank you. Next question, please.

No more? Okay. It looks like no more question from the floor. Are there any parting remarks from the speakers? I hope it answers your questions. I understand. This concludes today's briefing. Thank you very much.

[END]

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Document Notes

1. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
2. *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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