COMPANY RESEARCH AND ANALYSIS REPORT

System Support Inc.

4396

Tokyo Stock Exchange Prime Market Index

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Index

Summary

Aiming for double-digit profit growth led by cloud integration

System Support Inc. <4396> (hereinafter, "the Company") is an independent IT company that is continuously delivering growth centered on the Solutions Business, which includes deployment and support for the use of cloud systems, ERP and databases, etc., based on technological capabilities at the highest level of the industry. The Company is headquartered in Ishikawa Prefecture, Japan. However, Tokyo, Nagoya, and Osaka are the primary hubs of the Company's business activities. Also, the Company has a subsidiary in Silicon Valley in the US. Beyond the Solutions Business, the Company conducts recurring-revenue businesses such as the Outsourcing Business, which revolves around data center management, and the Product Business, which is mainly focused on providing cloud (SaaS) services.

1. Outline of results for FY6/22

In FY6/22, the Company set consecutive record highs for consolidated results, with net sales rising 12.2% YoY (year-on-year) to ¥16,198mn and operating profit increasing 28.5% YoY to ¥1,196mn. All businesses performed well, the Solutions Business in particular, against the backdrop of robust investment by companies in DX. Profit was driven by sales of high-profit-margin ServiceNow*-related services, which increased by 30.6% YoY, and sales of cloud infrastructure migration and usage support, which increased by 26.7% YoY, as high growth continued.

* "ServiceNow" is a cloud platform that standardizes and automates business processes and supports improved productivity by employees and organizations. It is provided by ServiceNow, Inc. of the US. Over the past few years, it has started to rapidly become widely used as a DX solution not only in the US and Europe, but also in Japan. The Company was one of the first Japanese companies to enter into a partner agreement with ServiceNow in 2015, and has a top-tier track record for deploying the service in Japan.

2. Growth strategy

The Company announced a three-year medium-term management plan that will begin in FY6/23. Its main theme is stated as “growth and creating further innovation.” Under the plan, the Company will enhance foundational services for DX promotion by customers and society, promote the growth and active participation of diverse human resources, and strengthen ESG management. For FY6/25, it is targeting net sales of ¥21.89bn or higher, operating profit of ¥2.18bn or higher, and an operating margin of ¥10% or higher. In terms of average annual growth over three years, the Company is projecting growth in net sales to exceed 10.6% and growth in operating profit to exceed 22.3%. Driving this will be the Cloud Integration Business. With the domestic cloud market to continue growing by double digits going forward, along with its existing cloud integration services, the Company will take up promising solutions where future growth is expected in order to secure an annual growth rate of 25% for the business, expanding it at a pace beyond the industry average. One solution the Company has recently become involved in is the Celonis Execution Management System (“Celonis EMS”), an execution management platform provided by Celonis SE of Germany, the global leader in process mining. The Company began handling the platform in March 2022 and is already receiving orders. The platform also links with ServiceNow, which the Company has ample experience implementing, so it is possible that sales will be increased relatively smoothly. Trends going forward will be watched. The Company also plans to steadily increase earnings from the System Integration Business, Outsourcing Business, Product Business and other areas. The Company further intends to continue investing in human resources, a source of growth, and plans to increase employees at a pace of almost 9% per year. In the IT industry, there are some companies for which human resources become a bottleneck preventing sales growth, but the Company has been able to steadily hire both new graduates and mid-career professionals, and its attrition rate is low at around 5%, so this risk is thought to be extremely small. Regarding its policy on shareholder returns, the Company plans to pay dividends with a payout ratio at the 30-35% level.

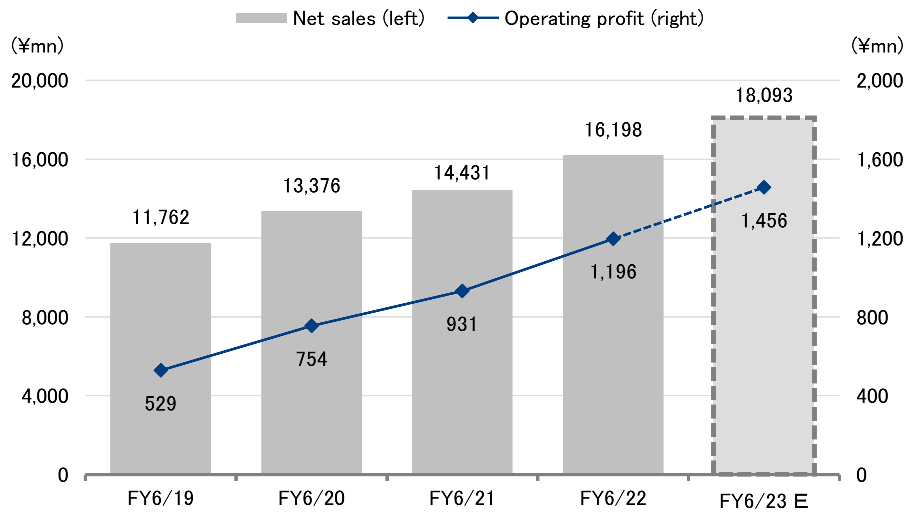
3. FY6/23 forecasts

For FY6/23, the Company is forecasting net sales to increase 11.7% YoY to ¥18,093mn and operating profit to increase 21.7% to ¥1,456mn. Though the economic outlook is growing increasingly unclear, DX investment in the corporate sector remains rampant, and the Company’s orders received continue to be strong, centering on the Cloud Integration Business. The Product Business and Outsourcing Business, which are recurring-revenue businesses, are also projected to grow steadily, and we at FISCO believe that there is a strong likelihood the Company will achieve its forecasts for FY6/23 results as well.

Key Points

- FY6/22 results set consecutive record highs on the strong performance of mainly the Solutions Business
- Under its medium-term management plan starting in FY6/23, the Company is targeting annual growth in operating profit of 22.3% or higher, which will be driven by the Cloud Integration Business
- Cloud-related demand remains rampant, and both sales and profit are forecast to continue double-digit growth

Results trends



Source: Prepared by FISCO from the Company's financial results

Company profile

An independent IT company that continues to grow by undertaking many projects involving Microsoft Azure, AWS, ServiceNow, SAP and Oracle

1. History

The Company was founded in 1980 in Kanazawa, Ishikawa Prefecture to provide data entry services and system development services. In the 1980s, business performance continued to grow steadily against the backdrop of favorable economic conditions. However, business results started to deteriorate following the collapse of Japan's bubble economy in the 1990s, putting the Company's survival at risk. In 1994, management was transferred from the Company's founder to the current Representative Director Ryoji Koshimizu. Under Mr. Koshimizu's leadership, the Company worked to rationalize management. As a result, four years later, its business results had recovered to the point where profitability was restored. Subsequently, the Company developed its technological capabilities, which are said to be at the highest level of the industry for an independent enterprise, into a core strength, and has continuously increased its business performance by using the expansion of the domestic cloud market as a tailwind.

Looking at business expansion initiatives since 2000, the Company founded eNet Solutions Co., Ltd., a subsidiary that conducts data center services, in 2000. In 2004, the Company entered into an Oracle EBS Technical Partner contract with Oracle Corporation Japan <4716>. With this contract, the Company would go on to proactively undertake system integration and deployment projects for Oracle products. In addition, the Company launched the Product Business to sell internally developed software products as a new income-generating business following systems development and data center services. As its first such product, the Company commenced sales of Tate Yakusha, a construction work information management system, in 2005.

Moreover, in 2009, the Company founded STS Medic Inc., a subsidiary engaged in the development and sales of specialized software for the medical industry. Thereafter, the Company built a solid business foundation by making use of M&As. For example, T4C Co., Ltd., a service partner of the major ERP provider SAP, and ACROSS Solutions, Inc., which had been providing system solutions to the distribution industry, were successively converted into subsidiaries of the Company in 2010 and 2012, respectively. The Company has also entered overseas markets. Notably, in 2013, the Company established a subsidiary in the US for the purpose of gathering information and supplying IT services in the country. Additionally, in 2016, it set up a subsidiary in Canada to provide outsourcing services (such as accounting services) to Japanese companies in North America. More recently, B-ROCK, Inc., which provides online marketing services, was made a subsidiary of ACROSS Solutions in April 2022 and was then absorbed by it in July 2022. The Company was listed on the Tokyo Stock Exchange Mothers Market in August 2018 and was elevated to the Tokyo Stock Exchange First Section one year later in August 2019. The Company has since been transferred to the Prime Market in conjunction with the TSE's reorganization of its market segments in April 2022.

History

Date	Major event
January 1980	Founded in Kanazawa, Ishikawa Prefecture, providing data entry and system development services.
November 2000	Financed and founded eNet Solutions Co., Ltd.
January 2004	Entered into an Oracle EBS Technical Partner contract with Oracle Corporation Japan <4716>
February 2005	Commenced sales of "Tate Yakusha," a construction work information management system
March 2009	Financed and founded STS Medic Inc.
May 2010	Acquired shares of T4C Co., Ltd. and made it a subsidiary
June 2011	Entered into an SAP Service Partner contract with SAP Japan Co., Ltd.
March 2012	Acquired shares of ACROSS Solutions, Inc. and made it a subsidiary
April 2012	Began providing services for Cloud Koubou powered by Amazon Web Services, a cloud support service
July 2013	Financed and founded STS Innovation, Inc. in the United States
August 2013	Began providing services for PinMap, a customer data mapping service
October 2013	Entered into an APN Consulting Partner contract with Amazon Japan K.K.
March 2015	Acquired additional shares of T4C Co., Ltd. and ACROSS Solutions, Inc. and made them wholly owned subsidiaries STS Innovation financed and founded FrontLine International, Inc. in the United States (absorbed through a merger in April 2017)
September 2015	Entered into a PartnerNow Master Terms with ServiceNow Nederland B.V.
January 2016	Financed and founded STS Innovation Canada, Inc. in Canada
February 2016	Commenced sales of the cloud-based shift management system "SHIFTEE"
August 2018	Listed on the Tokyo Stock Exchange Mothers Market
August 2018	Commenced sales of the attendance/work management system "Shugyo Yakusha"
August 2019	Listed market changed to the Tokyo Stock Exchange First Section
April 2020	Entered into a Google Cloud & Google for Education Commercial Partner Program Agreement with Google Cloud Japan G.K.
January 2021	Entered into a Subcontractor Agreement with Automation Anywhere, Inc.
June 2021	Commenced provision of ADDPLAT, a next-generation data analysis platform
March 2022	Entered into a Celonis Partner Program Agreement with CELONIS K.K.
April 2022	Listed market changed to the Tokyo Stock Exchange Prime Market ACROSS Solutions, Inc. acquired all shares in B-ROCK, Inc. and made it a subsidiary (absorbed in July 2022)

Source: Prepared by FISCO from the Company's website and securities reports

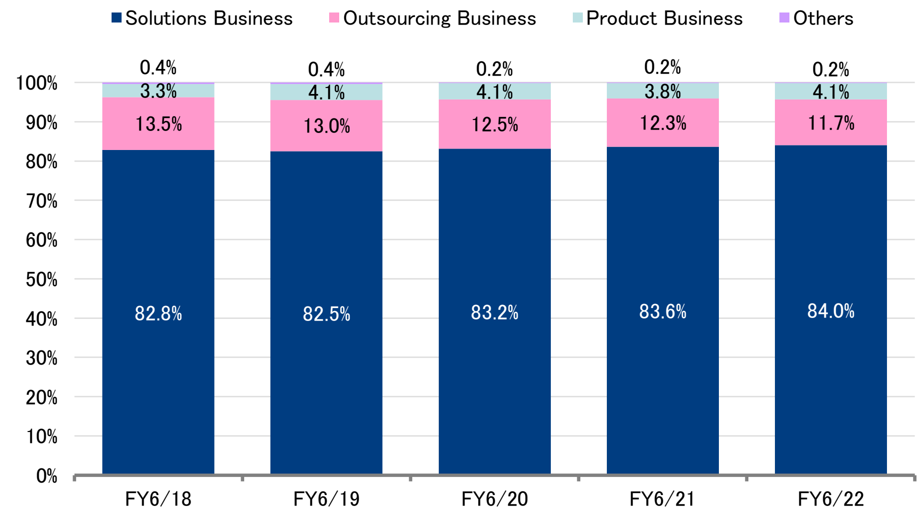
Focusing on the Solutions Business as the mainstay business, while expanding into the Outsourcing Business and Product Business, which will be recurring-revenue businesses

2. Business description

The System Support Group comprises the Company and its six consolidated subsidiaries. The Group discloses information based on three segments, specifically the Solutions Business, Outsourcing Business and Product Business (Segment names have been changed from FY6/23 onward; details to follow). Looking at the ratio of sales in each segment over the past five years, the composition has been generally stable with the Solutions Business accounting for between 80%-89% of sales, the Outsourcing business 10%-19%, and the Product Business around 4%. During this period, overall net sales have grown by roughly 1.6 times, indicating well-balanced growth among the three business segments.

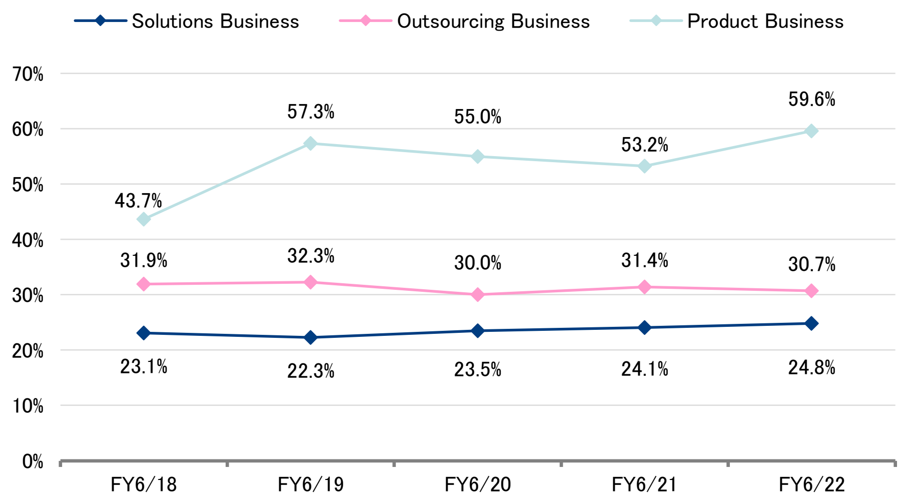
Looking at the profit margin (gross profit margin) for each segment, the mainstay Solutions Business and the Outsourcing Business have steadily remained in the low 20% range and the low 30% range, respectively, while the Product Business has had relatively high gross profit margins roughly between 55%-59%. Among these, the stability of the Solutions Business is what is receiving attention. In the system development industry, many companies are experiencing unstable profitability due to projects being drawn out or defects emerging, but the Company has been able to maintain a certain level of profitability. This is proof that the Company possesses strong technological and project management capabilities, and we at FISCO view these as the Company's strengths.

Composition of net sales by business segment



Note: Percentages are calculated using pre-adjusted figures
Source: Prepared by FISCO from the Company's financial results

Gross profit margin by business segment



Source: Prepared by FISCO from the Company's financial results

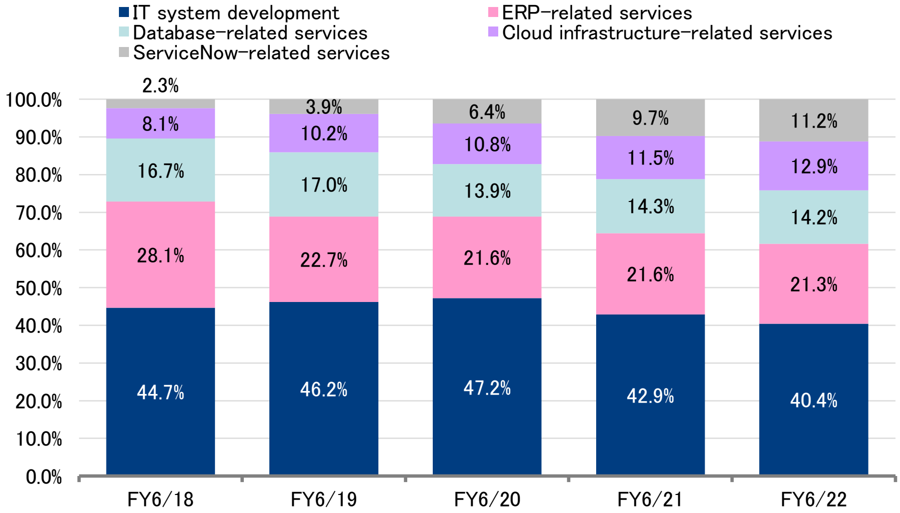
(1) Business description for each business segment

a) Solutions Business

In the Solutions Business, as an independent IT company, the Company provides technological support related to usage and deployment of cloud services and ERP packages and building databases and other infrastructure, centered on consulting, design, development, and operation and maintenance of IT systems for client companies. Its strengths lie in its wide range of customers across all manner of business sectors and operations, and its ability to support a complete spectrum of development processes on a one-stop basis.

In terms of the sales composition for FY6/22, ERP-related services (mainly SAP construction, introduction and usage support) represented 21.3%, database-related services (design, construction, and maintenance and operation of Oracle databases) were 14.2%, cloud infrastructure -related services (deployment and usage support for cloud services such as Microsoft Azure, AWS, and Google Cloud) were 12.9%, ServiceNow-related services 11.2%, and other IT system-related services (contract development) 40.4%. Against the backdrop of growth in the cloud services market, cloud infrastructure-related and ServiceNow-related services have continued to grow rapidly over the past few years. The sales composition of both fields combined increased from 10.4% in FY6/18 to 24.1% in FY6/22.

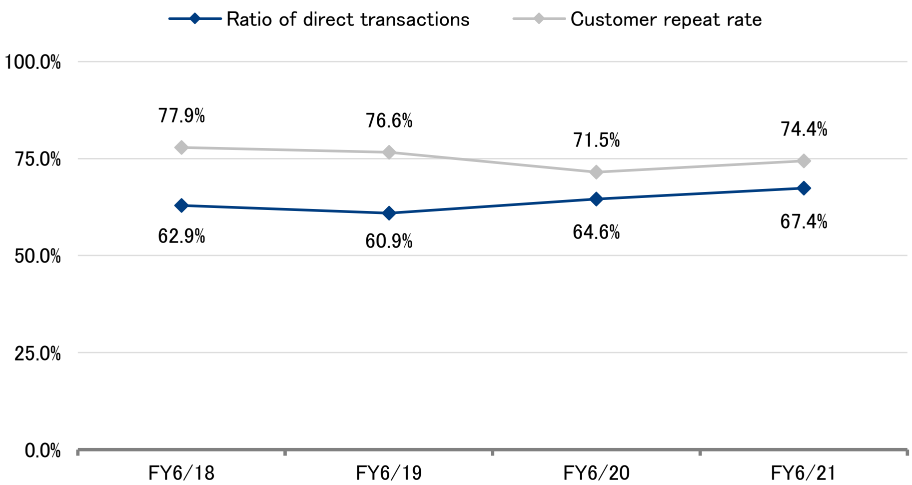
Sales composition of the Solutions Business



Source: Prepared by FISCO from the Company's supplemental results briefing materials

Direct transactions with end customers represented 67.4% of net sales in FY6/21, with the remainder comprising net sales from subcontracted projects received via major SI vendors and other partners. Projects undertaken through direct transactions with end customers have relatively high profit margins and tend to create closer relationships with customers. Meanwhile, subcontracted projects primarily involve large-scale projects, such as systems for financial institutions and ERP development. Profitability is lower than direct transactions with end customers, but these large projects contribute to sales over a long period of time, so they are positioned as a stable business for maintaining engineer utilization rates at fixed levels. The Company's repeat rate is high at 74.4%.

Ratio of direct transactions and repeat rate



Note: Repeat rate (among the customers from whom net sales were recognized in the previous period, the ratio of the number of customers from whom net sales were also recognized in the current period)
Source: Prepared by FISCO from the Company's securities reports

Moreover, one of the features of the Company is that it is a group of technology professionals, with engineers representing more than 80% of personnel in the Solutions Business. This personnel mix is in place because a large number of customer-referred projects for those related to cloud, databases, etc. come from Microsoft Azure, AWS, ServiceNow, Oracle and other platforms, and it is becoming critical to have an abundance of certified engineers on staff and a development track record of projects with high customer satisfaction in each area in order to receive these projects. For this reason, the Company is focused on developing certified engineers and, as a result of these initiatives, has received many awards from Microsoft Azure, AWS, Oracle and other platforms.

Track record of main certifications and awards

Microsoft Azure	AWS
• Obtained Gold Cloud Platform Competency Certification Certified as a partner with an outstanding track record in expanding Microsoft Azure • Obtained Advanced Specialization*1 Obtained certification as a partner with sophisticated expertise in specific solution fields • Received five consecutive MVP awards Received consecutive awards in the data platform field since 2017*2	• Obtained Oracle Competency in the AWS Competency Program*3 • Received the APN Partner Award "Rising Star of the Year" (FY2014) **Oracle** • Received Oracle Database-related awards for 14 consecutive years*4 Received Oracle Certification Award 2020 and other awards from Oracle Corporation Japan

*1 Obtained in the field of migrating Windows Servers and SQL Servers to Microsoft Azure.
*2 Award received by the Company's employees.
*3 A program to identify, validate, and promote Advanced and Premier tier partners in the AWS Partner Network (APN) that have demonstrated technical expertise and proven customer success pertaining to AWS.
*4 Awards received from 2007 to 2020.
Source: Prepared by FISCO from the Company's supplemental results briefing materials

b) Outsourcing Business

In the Outsourcing Business, data centers managed by subsidiary eNet Solutions Co., Ltd. at three locations in Japan (Tokyo and Kanazawa) account for around 70% of net sales from management services. These services are used as infrastructure for the private clouds of companies and for BCP measures and data backup management. Also, in 2006, as a value-added service that acts as a hook for acquiring data center customers, the Company began providing Safetylink24, an emergency notification and safety confirmation service that automatically distributes safety confirmation messages for employees linked to earthquake information. In 2010, the Company began offering ActionPassport, an electronic work flow system, and in 2017, the Company began providing Magic Insight, a service that allows customers to easily use IBM Japan, Ltd.'s IBM Watson Explorer (an AI-driven search and analysis platform) with a monthly charge plan. The data center management business is characterized by a revenue structure in which monthly sales increase as contracted data increases, but when capacity is augmented, depreciation expense increases, and this can temporarily affect profits. As of June 2022, the number of customers using the Company's data centers amounted to approximately 1,000 companies.

The Company also has other sources of sales, including training for client companies pertaining to systems that the Company was involved in developing in the Solutions Business and operation and maintenance of help desk services, along with data analysis and entry services.

c) Product Business

In the Product Business, the Group is engaged in the development and sales of products (software) and the supply of services. It also customizes products according to customer needs. Many products are sold through direct sales to customers (Tate Yakusha is often sold through the OEM channel), but sales agencies are also used. The Product Business's current main products are Tate Yakusha for the construction industry and the MOS mobile order receipt and placement system for the wholesale and retail sectors, both of which account for around 30% of net sales. While the Company does receive orders for large custom development projects from time to time, the majority of sales in the Product Business are generated through monthly fees from cloud (SaaS) services. Therefore, this business has a recurring-revenue business model where revenue increases in line with growth in the number of subscribers.

Outline of major products

Name	Provider	Description	Number of subscribing companies*
Tate Yakusha	System Support Inc.	A construction work information management system. The monthly charge for the standard version is ¥40,000 per 5 licenses (initial cost: ¥350,000). The premium version is offered at a monthly charge of ¥80,000 per 5 licenses (initial cost: ¥580,000).	688
MOS	ACROSS Solutions, Inc.	A mobile order receipt and placement system. For the full version, the initial cost starts at ¥350,000, options at ¥100,000, and the monthly charge at ¥20,000 (with actual figures depending on the number of accounts needed by the party placing the order).	597
SHIFTEE	System Support Inc.	A cloud-based shift management system. The monthly charge for the light version is ¥200 per user (separate charges apply for customization).	98
Shugyo Yakusha	System Support Inc.	An attendance/work management system. The monthly charge for the cloud version is ¥200 per user (separate charges apply for the on-premise version).	122

* As of June 30, 2022, on a cumulative basis
Source: Prepared by FISCO from the Company's website and supplemental results briefing materials

(2) Group companies and the number of employees

The Company's subsidiaries specialize in different functions and business sectors so that they can constantly provide new solutions to customers with proactivity and speed in each company's specialty area. The online marketing services business of B-ROCK, which was made a subsidiary of ACROSS Solutions in April 2022 (and subsequently absorbed by it) has been incorporated into the Solutions Business.

* In FY9/21, B-ROCK recorded net sales of ¥230mn and operating profit of ¥50mn.

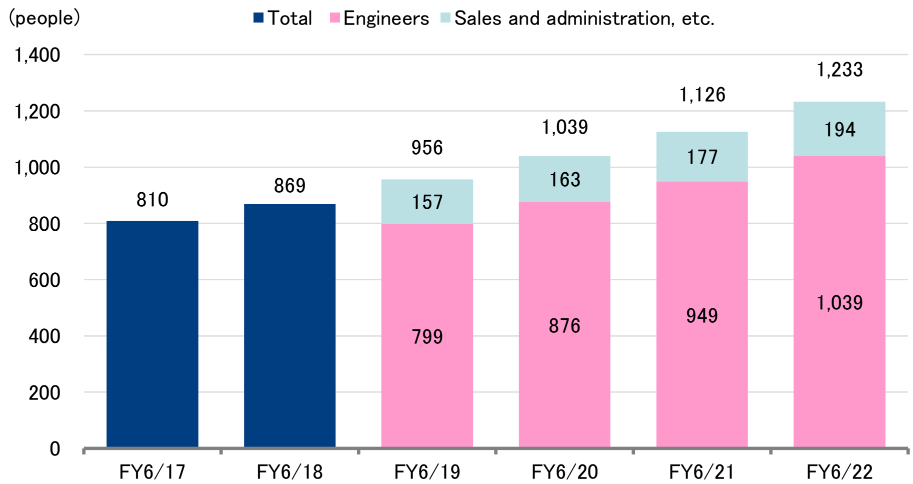
The number of employees was 1,233 on a consolidated basis at the end of June 2022, an increase of 107 people YoY. Engineers account for 84% of employees. By region, 52% of employees are in the Tokyo metropolitan area, 20% in the Hokuriku region, 14% in Kansai, 12% in Tokai, and 0.8% overseas.

Description of main businesses and number of employees of Group companies

Name of company	Solutions Business	Outsourcing Business	Product Business	Number of employees
System Support Inc.	System development, infrastructure construction support, cloud service deployment support	System operation and maintenance, data entry services	Development and sales of Tate Yakusha, a construction work information management system, and other products	943
eNet Solutions Co., Ltd.	Deployment of various solutions	Data centers and related platform services	-	64
T4C Co., Ltd.	ERP product deployment consulting	-	-	76
STS Medic Inc.	Sale and installation of medical devices and other items	-	Sales and deployment support for T-File, a medical image filing system	11
ACROSS Solutions, Inc.	Web marketing services	-	Development and sale of MOS mobile order receipt and placement system	23
STS Innovation, Inc.	-	Outsourcing service for management operations	-	6
STS Innovation Canada Inc.	-	Outsourcing service for management operations	-	3

* The number of employees is as of June 30, 2021. Other businesses (overseas information provision service, overseas media business, staff referral business, etc.) are conducted by STS Innovation, Inc.
Source: Prepared by FISCO from the Company's securities reports

Trend in the number of consolidated employees



Source: Prepared by FISCO from the Company's supplemental results briefing materials

Results trends

In FY6/22, the Company performed well, mainly in Solutions Business, and set a new record high for results

1. Outline of results for FY6/22

In FY6/22 consolidated results, net sales increased 12.2% YoY to ¥16,198mn, operating profit rose 28.5% to ¥1,196mn, ordinary profit was up 24.7% to ¥1,190mn and profit attributable to owners of parent was up 16.5% to ¥785mn. All these results surpassed the Company's initial forecasts, and the Company set a consecutive new record high.

Consolidated results for FY6/22

(¥mn)

	FY6/21		FY6/22				
	Results	% of net sales	Company forecast	Results	% of net sales	YoY	Achievement rate
Net sales	14,431	-	15,962	16,198	-	12.2%	1.5%
Cost of sales	10,688	74.1%	-	11,861	73.2%	11.0%	-
SG&A expenses	2,811	19.5%	-	3,140	19.4%	11.7%	-
Operating profit	931	6.5%	1,080	1,196	7.4%	28.5%	10.8%
Ordinary profit	954	6.6%	1,066	1,190	7.3%	24.7%	11.7%
Extraordinary gains (losses)	-24	-	-	-14	-	-	-
Profit attributable to owners of parent	674	4.7%	745	785	4.9%	16.5%	5.5%

Source: Prepared by FISCO from the Company's financial results

This was mainly attributable to the continued high growth of the Solutions Business centering on cloud-related services. With the continued spread of COVID-19, corporate DX investment was rampant, and there were increases in IT system cloud migration projects and ServiceNow installations, which have a high profit margin. Sales and profits increased in the Outsourcing Business and Product Business as well. The cost-of-sales ratio declined by 0.9 percentage points YoY to 73.2% as a result of the continued high growth of ServiceNow, whose profit margin is high even within the Solutions Business, and the increase in sales in the Products Business. SG&A expenses increased by 11.7% YoY primarily due to increases in personnel, recruiting, education and other costs, but the SG&A expenses ratio declined by 0.1 percentage points to 19.4%, and, as a result, the operating margin rose 0.9 percentage points to 7.4%, a record high level.

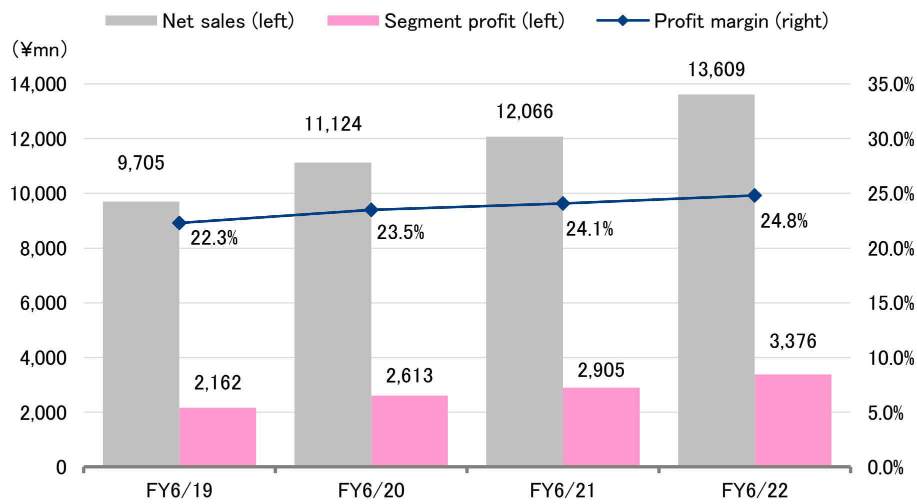
ServiceNow and cloud infrastructure-related services continue double-digit sales growth

2. Trends by business segment

(1) Solutions Business

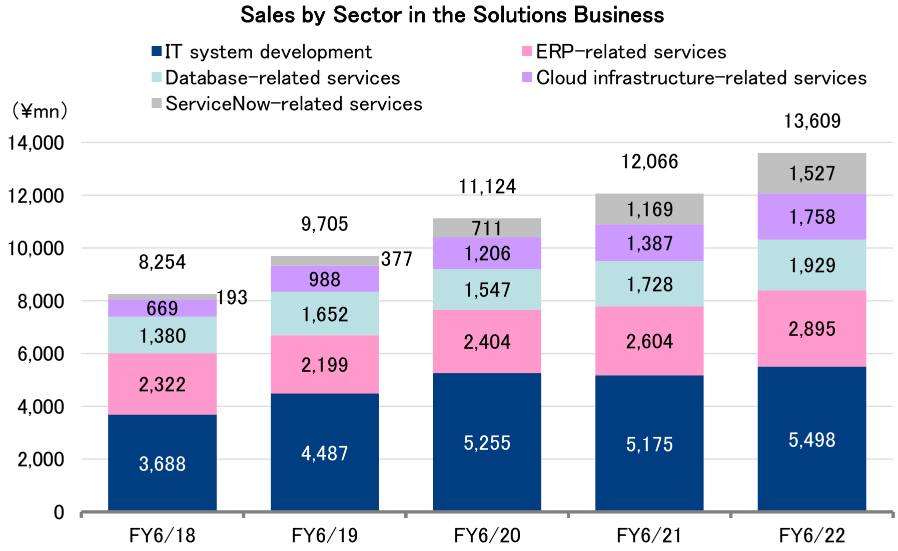
Net sales from the Solutions Business increased 12.8% YoY to ¥13,609mn, and segment profit rose 16.2% YoY to ¥3,376mn. The profit margin increased 0.7 percentage points YoY to 24.8%. There were strong performances from ServiceNow-related services, for which demand is increasing as a DX support solution that raises the efficiency of system maintenance and operations, and in the area of information system cloud infrastructure migration and usage support. The higher profit margin was largely from the increased proportion of ServiceNow-related services within the sales mix, along with the increase in sales.

Performance trends in the Solutions Business



Source: Prepared by FISCO from the Company's supplemental results briefing materials

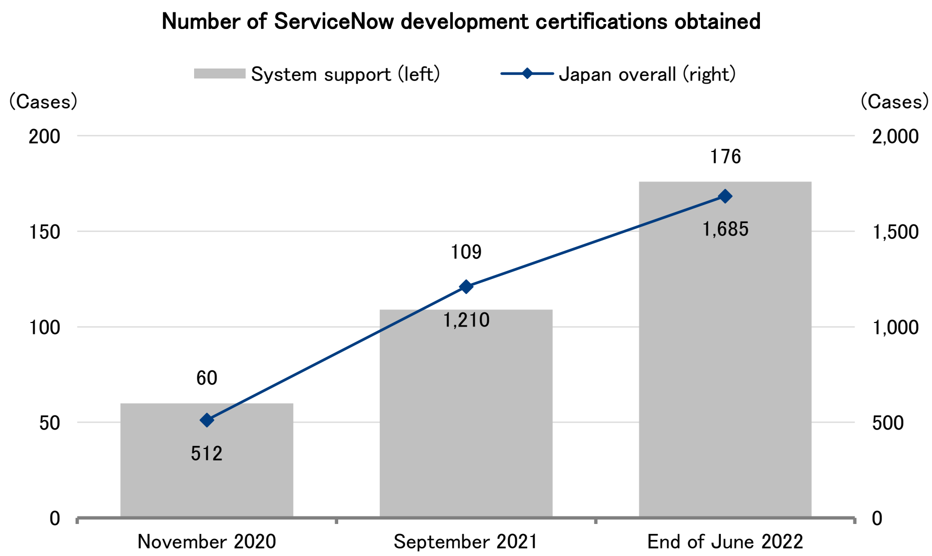
Looking at net sales by sector, ServiceNow-related services increased 30.6% YoY to ¥1,527mn, cloud infrastructure-related services increased ¥26.7% to ¥1,758mn, ERP-related services rose 11.2% to ¥2,895mn, database-related services climbed 11.6% to ¥1,929mn, and IT system development increased 6.2% to ¥5,498mn, as there was sales growth in all areas.



Source: Prepared by FISCO from the Company's supplemental results briefing materials

Regarding ServiceNow-related services, training engineers and expanding outside partnerships in order to meet rampant demand is fueling high growth. According to documents released by ServiceNow Japan, the number of ServiceNow development certifications obtained has risen approximately three times over two years, from 60 in November 2020 to 109 in September 2021 to 176 most recently at the end of June 2022, as the Company has maintained its No. 2 spot in the industry*. More companies are entering the market as it expands, but the Company can be expected to maintain a top market share as an Elite Partner of the highest rank. Previously, a majority of the Company's customers were in Tokyo and Osaka, but, recently, orders have been increasing in the Nagoya and Ishikawa areas as well, and demand continues to outstrip capacity.

* Covers Certified Implementation Specialist / Certified Application Developer / Certified Application Specialist. Accenture Japan Ltd. was ranked first place with 186 projects.



Source: Prepared by FISCO from the Company's materials

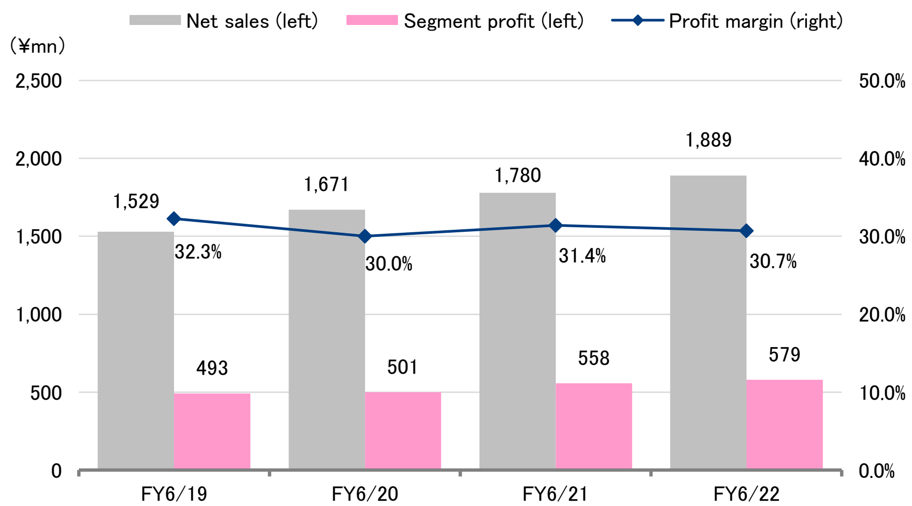
In cloud infrastructure-related services, along with migration projects involving Microsoft Azure, AWS and Oracle Cloud, Google Cloud related services, which the Company began in April 2020, also steadily generated results and contributed to the sales increase. With technical database capabilities cultivated over many years as its strength, the Company received numerous orders for projects related to use of cloud-based databases and data analysis platforms. In addition, resale sales in particular increased by 30.7% to ¥1,010mn. “Resale” refers to cloud service usage fees from customer accounts. The resale business has a low profit margin, but it provides a stable source of revenue as long as contracts are not cancelled.

In addition, in ERP-related services, in anticipation of SAP terminating maintenance support for existing products (in 2027), companies with these products are continuing to migrate from them to SAP S/4 HANA, and sales are steadily increasing. Regarding the ERP field, the Company has built a maintenance system in the Hokuriku region capable of nearshore support, and the fact that the Company is able to accommodate, on its own, the entire process from ERP consulting to development, infrastructure building and maintenance services has been a factor behind the sales growth.

(2) Outsourcing Business

Net sales from the Outsourcing Business increased 6.1% YoY to ¥1,889mn, and segment profit rose 3.7% to ¥579mn, as both sales and profits continued to increase. Sales from data center services, including AI-related services, steadily increased. A key factor is companies increasingly using the Company’s data center located in Kanazawa, which has few earthquakes, as a part of their BCP measures. The profit margin dropped slightly from 31.4% the previous term to 30.7%, but this is attributable to the Company having invested to augment servers in order to expand capacity at data centers against a backdrop of strong orders. Recurring monthly revenue from data centers has steadily risen and has recently topped the ¥100mn level.

Performance trend in the Outsourcing Business

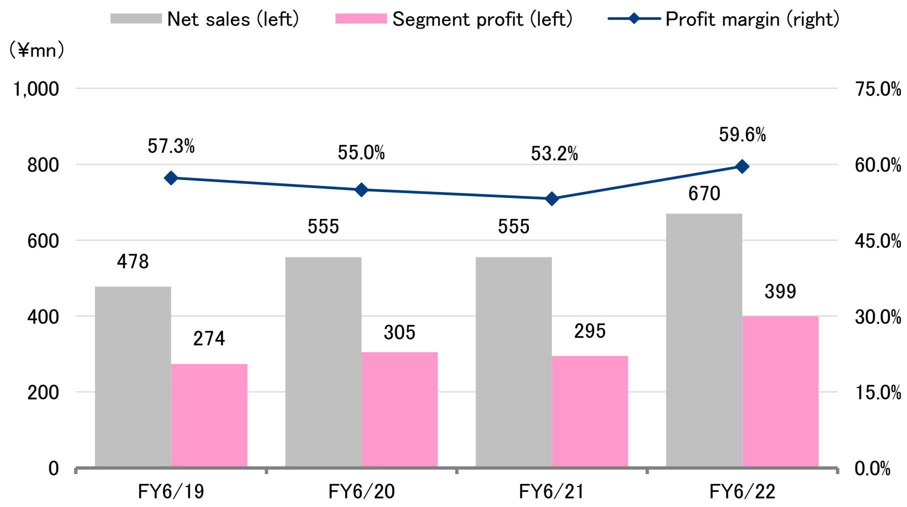


Source: Prepared by FISCO from the Company’s supplemental results briefing materials

(3) Product Business

In the Product Business, net sales increased 20.8% YoY to ¥670mn, and segment profit rose 35.2% to ¥399mn, so both sales and profits increased substantially, setting new record highs for the first time in two terms. Strong sales were recorded for MOS (a mobile order receipt and placement system), Shugyo Yakusha (an attendance/work management system), and SHIFTEE (a cloud-based shift management system). The profit margin also increased greatly, from 53.2% the previous year to 59.6%, owing to growth in products with good profitability.

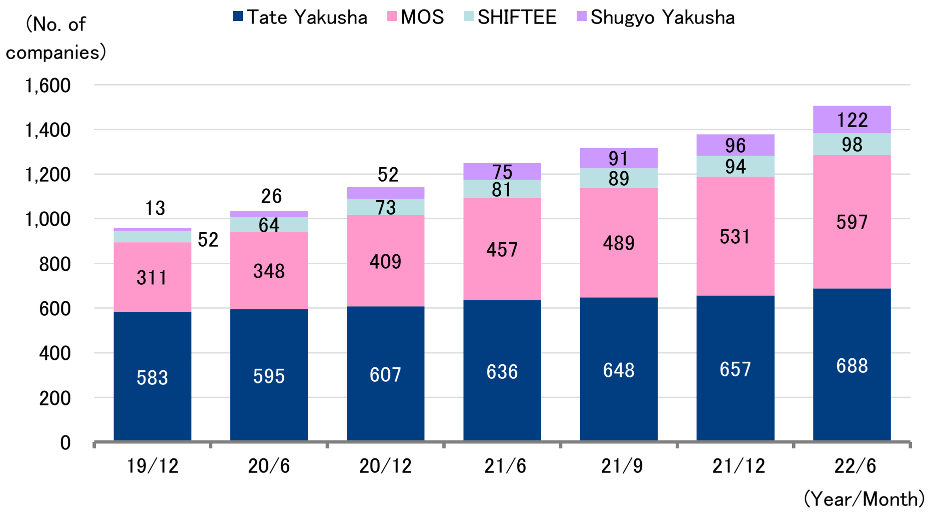
Performance trends in the Product Business



Source: Prepared by FISCO from the Company's supplemental results briefing materials

MOS has been highly rated for having an easy-to-use user interface, being customizable, and providing good cost performance, and there is a substantial distributor network for it. As a result, the number of companies deploying the product increased by 66 from the previous year-end to 597 companies. In addition, companies using Shugyo Yakusha, which the Company launched in 2018, increased by 26 to 122. With more companies introducing diverse work styles, including remote work, Shugyo Yakusha has been rated highly for having parameters that can be set flexibly in line with company rules. The Company continues to strengthen its functions, so it is still not a profitable product, but given the steady growth in the number of companies deploying it, it is expected to move into the black in due time. Companies using SHIFTEE increased by 4 to 98, and companies with Tate Yakusha increased by 31 to 688 companies. As a proportion of segment sales, MOS is largest at over 30%, next is Tate Yakusha at just under 30%, and SHIFTEE and Shugyo Yakusha are around 10% each, the rest accounting for just under 20%.

Number of companies deploying each product



Source: Prepared by FISCO from the Company's supplemental results briefing materials

Financial base continues to gain strength, and profitability rising steadily

3. Financial condition and business indicators

Looking at the Company's financial condition as of the end of FY6/22, total assets were ¥7,815mn, an increase of ¥1,153mn from the end of FY6/21. In terms of the main factors behind this change, under current assets, cash and deposits increased by ¥556mn and notes and accounts receivable – trade and contract assets increased by ¥494mn, accompanying the expansion of earnings. Under non-current assets, although property, plant and equipment decreased by ¥16mn, goodwill and deferred tax assets increased by ¥196mn and ¥62mn, respectively.

Total liabilities increased ¥724mn YoY to ¥4,393mn. Interest-bearing debt increased by ¥196mn, income taxes payable, by ¥123mn, accrued expenses, by ¥186mn, and accounts payable – other, by ¥92mn. In addition, total net assets were ¥3,421mn, an increase of ¥428mn from the end of the previous year. This was primarily caused by an increase of ¥457mn in retained earnings as a result of recording profit attributable to owners of parent and the payment of dividends.

Looking at business indicators, the equity ratio edged down from 44.9% at the end of FY6/21 to 43.8%, but this was the result of liabilities increasing more than equity in conjunction with business expansion. Because equity, cash and deposits, and net cash (cash and deposits less interest-bearing debt) continue to increase, it can be judged that the Company's financial base is continuing to gain strength. Regarding profitability, ROA was 16.4% and the operating margin was 7.4%, as both continue to rise. With ROE being maintained in the 20-29% range as well, it suggests profitability is increasing alongside earnings growth.

Consolidated balance sheet

(¥mn)

	FY6/19	FY6/20	FY6/21	FY6/22	vs. prior fiscal year-end
Current assets	4,223	4,631	5,319	6,303	984
(Cash and deposits)	1,881	2,387	2,697	3,254	556
Non-current assets	1,141	1,316	1,342	1,511	168
Total assets	5,365	5,947	6,662	7,815	1,153
Total liabilities	3,387	3,540	3,669	4,393	724
(Interest-bearing debt)	1,145	1,015	952	1,149	196
Total net assets	1,977	2,407	2,993	3,421	428
(Security)					
Equity ratio	36.9%	40.5%	44.9%	43.8%	-1.1pt
Interest-bearing debt ratio	57.9%	42.2%	31.8%	33.6%	1.8pt

Source: Prepared by FISCO from the Company's financial results

Outlook

Driven by the Cloud Integration Business, targeting operating profit growth of 22% or higher annually

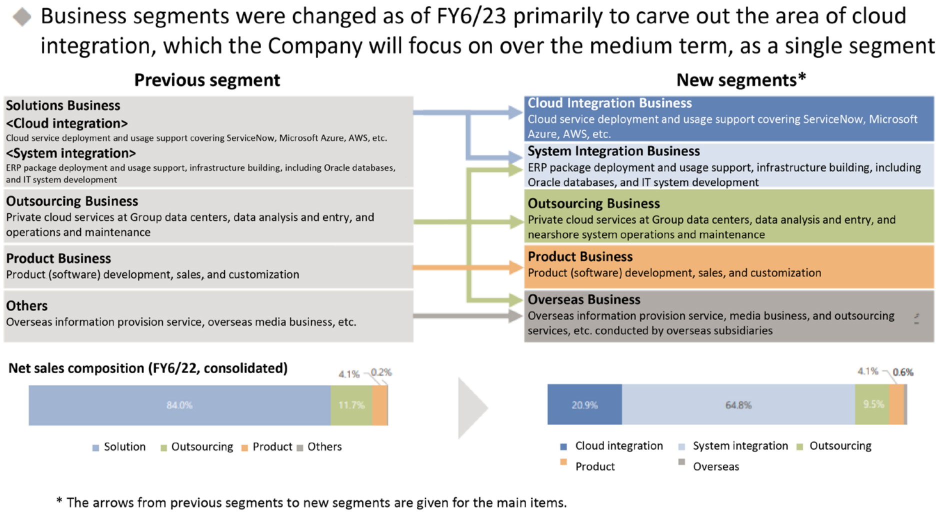
1. Medium-term management plan

(1) Outline of medium-term plan

The Company has announced a three-year medium-term management plan that starts in FY6/23. The main theme is stated as “growth and creating further innovation,” and under the plan, the Company will enhance foundational services for DX promotion by customers and in society, promote the growth and active participation of diverse human resources, and strengthen ESG management. For FY6/25, it has set targets of net sales of ¥21.89bn or higher, operating profit of ¥2.18bn or higher, and an operating margin of ¥10% or higher. This amounts to three-year annual growth in net sales of more than 10.6% and operating profit of more than 22.3%.

The Company has revised its business segments as of FY6/23 primarily to carve out the area of cloud integration, which it will focus on over the medium term, as a single segment. Specifically, the Solutions Business was divided into the Cloud Integration Business (cloud service deployment and usage support covering ServiceNow, Microsoft Azure, AWS and others) and the System Integration Business (ERP package deployment and usage support, infrastructure building, including Oracle databases, and IT system development). In addition, non-nearshore maintenance and operations services that had been recorded in the Outsourcing Business were transferred to the System Integration Business, outsourcing services for accounting processes, which had been conducted by a Canadian subsidiary, were transferred to the newly established Overseas Business, and sales from overseas subsidiaries (staff referral services for local Japan-affiliated companies, marketing support services, etc.), which had been recorded in other sales, were also moved to the Overseas Business.

Changes in the Company's business segments

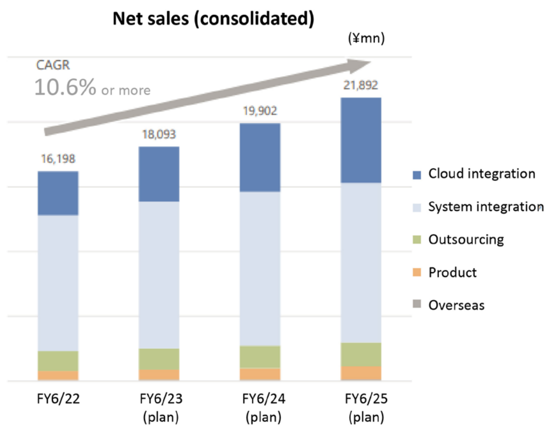


Source: The Company's medium-term management plan materials

Looking at average annual growth rates in net sales by business segment, the Cloud Integration Business is highest at 25.0%, and next is the Product Business at 15.0%. For the System Integration Business, Outsourcing Business and Overseas Business, the Company is projecting solid growth for each of between 5.5% and 7.0%. Over the next three years, the Company is expecting an increase in sales of over ¥5.7bn, but more than 50% of this will be generated by the Cloud Integration Business.

Net sales targets in the Company's medium-term management indicators (consolidated)

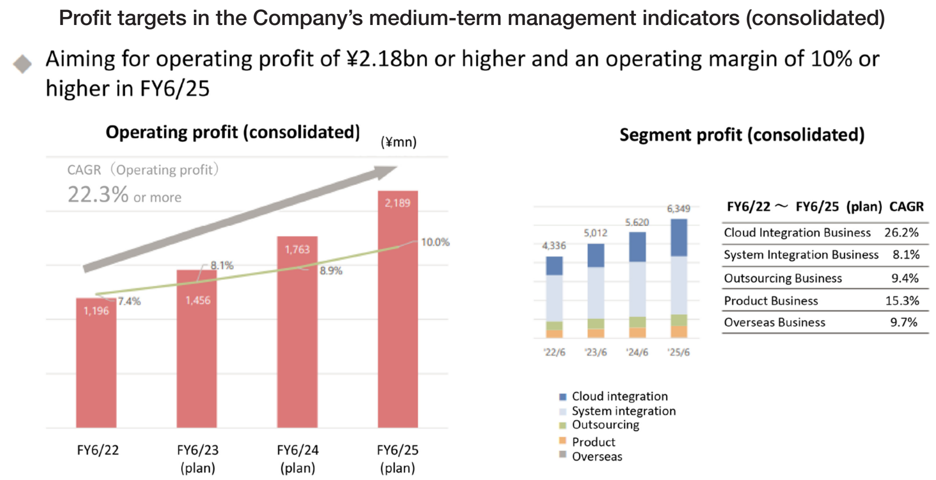
◆ Aiming for net sales in FY6/25 of ¥21.89bn or higher



FY6/22 ～ FY6/25 (plan) CAGR	
Cloud Integration Business	25.0%
System Integration Business	5.5%
Outsourcing Business	6.0%
Product Business	15.0%
Overseas Business	7.0%

Source: The Company's medium-term management plan materials

The trends are nearly the same for segment profit. The Cloud Integration Business is highest at 26.2%, followed by the Product Business at 15.3% and the other three businesses at between 8.1% and 9.7%. The Company is also projecting profit margins to go up in nearly all its business segments. Only the Product Business is expected to have a generally flat profit margin, but this is because the Company is planning to continue investing in development in order to strengthen functions and for other purposes.



Source: The Company's medium-term management plan materials

(2) Growth strategy by business segment

a) Cloud Integration Business

The key to the Company achieving the targets of its medium-term management plan is the growth of its Cloud Integration Business. The migration of IT systems to clouds will continue going forward, and the cloud services market is projected to continue double-digit growth over the medium term, so the Company is planning sales growth of 25%, which exceeds the market average. To meet the goals of its plan, the Company intends to focus on the following three initiatives. It will 1) work to strengthen relationships with cloud vendors through engineer training and thereby increase customer referrals, 2) work to optimize cloud migration and post-migration ("lift & shift") and increase orders, centering on the three major cloud platforms (AWS, Microsoft Azure, Google Cloud) and ServiceNow, and 3) gather information on promising cloud services overseas, commercialize them in the Japanese market as soon as possible through engineer training and knowledge accumulation, and use them to acquire new customers.

Regarding initiatives for promising new services in particular, the Company is currently preparing three. The first is Celonis EMS, an execution management platform provided by Celonis, a firm with which the Company entered into a sales partnership agreement in March 2022. This tool collects and analyzes business process information and identifies portions that are inefficient in order to optimize business operations. Since its release in October 2020, it has been increasingly adopted by global corporations, and it is drawing attention in Japan as well, with the expectation that it will be widely used going forward.

Celonis has around 40 sales partners in Japan, but given the Company's extensive experience in deployment of ServiceNow, it is possible that it will quickly build up a track record of implementing Celonis EMS as well. This is because Celonis and ServiceNow entered into a strategic partnership in October 2021, have linked their products, and have agreed in principle on collaborating going forward in development, marketing and sales. In light of this, it can be said that it was inevitable that the Company, with its extensive track record in ServiceNow deployment, would become a sales partner of Celonis. In both cases, the products are tools for increasing productivity, and they are even more effective when used in combination, so companies that have implemented ServiceNow are strong prospects as customers for Celonis EMS. The Company is already starting to build a track record, with customer referrals from Celonis leading to orders. This has the potential to be another seed of growth after ServiceNow, which has contributed to the Company's earnings growth over these past few years, so trends going forward will be watched.

b) System Integration Business

In the System Integration Business, the Company will work to recruit and train engineers to expand its mainstay ERP-related, database-related and RPA-related services, and will increase sales by building close relationships with customer companies to expand existing customer projects and acquire recurring orders. In addition, the Company intends to maintain and strengthen project management from the perspectives of quality, duration, cost and risk control to increase service quality while preventing the occurrence of unprofitable orders, and in this way it will work for steady growth.

c) Outsourcing Business

In the Outsourcing Business, the Company will target a different customer segment than major cloud vendors for its data center management services, acquiring customers by attracting them with unique services, including AI-related services, and building up data usage volume. In addition, data centers will gradually augment facilities in line with operating conditions, both raising quality and ensuring profitability. In addition, with regard to maintenance for SAP's ERP products, demand is expected to rise ahead of 2027, so the Company will train nearshore staff in the Kanazawa region and further strengthen its systems.

d) Product Business

In the Product Business, the Company will expand sales channels through distributors and others and strengthen advertising to acquire new customers and will work to increase the number of users by expanding user divisions within existing customers. The Company also intends to continue strengthening the functions of existing products. It plans to increase the number of companies deploying the Company's four main existing products from 1,505 at the end of June 2022 to 2,500 in FY6/25.

Regarding MOS, a mainstay product, the Company's strategy will be to utilize the online marketing business it has acquired through M&A to further promote sales through online marketing and also work for competitive differentiation by providing MOS and online marketing services to customers on a one-stop basis and thereby acquire new customers.

e) Overseas Business

In the Overseas Business, the Company, through its US subsidiary, will provide support services for IT infrastructure, HR recruitment, marketing and other areas for Japan-affiliated companies expanding into North America, and though its Canadian subsidiary, will provide remote monitoring services for Japanese companies that take advantage of the time difference with Japan and also strengthen outsourcing services for accounting processes.

(3) Investment in Human Resources

The Company positions human resources as a source of business growth and aims to create new corporate value by actively recruiting and promoting diverse human resources, providing training, and creating a pleasant work environment. With regard to recruitment, the Company will recruit functionally through hiring managers assigned to its various offices instead of solely hiring through the head office. It also plans to be active in conducting recruiting activities to prevent mismatches between job and applicant. New graduate hires are increasing each year, and the Company plans to hire 91 such individuals in FY6/23, which, combined with the 93 mid-career professionals it plans to hire, will bring the total number of hires to 184 for the year, which would be a record high. Many companies in the IT industry struggle to recruit personnel, but in the Company's case, its name recognition was raised when it became a publicly listed company, and it is involved in cloud infrastructure-related services, which continue to grow, so it is able to recruit and hire relatively smoothly. Also, with regard to its attrition rate, the rate has declined from 8.1% in FY6/19 to 4.9% in FY6/22, which is less than half the industry average. Employee engagement is also thought to be increasing. The Company is planning to increase the number of consolidated employees from 1,233 at the end of FY6/22 to 1,582 by the end of FY6/25.

Number of personnel hired (consolidated)

	FY6/19	FY6/20	FY6/21	FY6/22	FY6/23 plan
New graduates hired	55	58	60	70	91
Mid-career professionals hired	93	97	89	83	93
Attrition rate	8.1%	7.7%	5.9%	4.9%	-

Source: Prepared by FISCO from the Company's supplemental results briefing materials

Regarding training for engineers, the Company plans to continue investing to maintain and further raise competitiveness, which will include obtaining cloud-related vendor certifications. It will also work to raise salary levels and has set targets for the percentage of women employees, reducing total work hours, the percentage of employees who use childcare leave, and other areas.

(4) Strengthening ESG management

Through ESG management based on its corporate philosophy (Contributing to Society, Advanced Customer Service, Sharing Value), the Company is engaged in solutions to social issues and will strengthen the following initiatives going forward.

In the area of the environment, the Company will set a emissions target and implement further reduction and absorption measures, establish a disclosure system in line with the Task Force on Climate-Related Financial Disclosures (TCFD), and respond to the Carbon Disclosure Project (CDP) survey and work to improve its score.

For society, the Company will seek to expand local business and stimulate the economy through training DX personnel. In terms of specific measures, it started Microsoft Base Kanazawa activities on a full-fledged basis in August 2022 based on the concept of local IT urbanization in Hokuriku starting in Kanazawa. The program provides free DX training and support for promoting DX at the industry, academia, government and community levels. The activities also include providing business space, including co-working space, to support local business expansion, economic vitalization, and the creation of new business opportunities.

Cloud-related demand will remain rampant; sales and profits expected to continue double-digit growth

2. Outlook for FY6/23

For its consolidated results in FY6/23, the Company is forecasting net sales to increase 11.7% YoY to ¥18,093mn, operating profit to rise 21.7% to ¥1,456mn, ordinary profit to go up 22.0% to ¥1,452mn, and profit attributable to owners of parent to increase 25.1% to ¥982mn for double-digit growth in both sales and profits. While the economy's outlook is increasingly uncertain given rising energy prices and the lack of any foreseeable resolution to the Ukraine crisis, among other factors, the appetite of companies to invest in DX remains rampant, and there will be no change in the fact that inquiries continue to outstrip capacity. Personnel costs, education and training costs, and other expenses are expected to increase with active hiring of personnel, but owing to the effects of increased sales and an improved sales mix, the profit margin is also projected to increase. By segment, as discussed above, double-digit sales and profit growth is projected for the Cloud Integration Business and Product Business, and solid performances are forecast for the System Integration Business, Outsourcing Business and Overseas Business.

Consolidated outlook for FY6/23

(¥mn)

	FY6/22		FY6/23		
	Results	% of net sales	Company forecast	% of net sales	YoY
Net sales	16,198	-	18,093	-	11.7%
Operating profit	1,196	7.4%	1,456	8.0%	21.7%
Ordinary profit	1,190	7.3%	1,452	8.0%	22.0%
Profit attributable to owners of parent	785	4.9%	982	5.4%	25.1%
Profit per share (¥)	75.91		94.87		

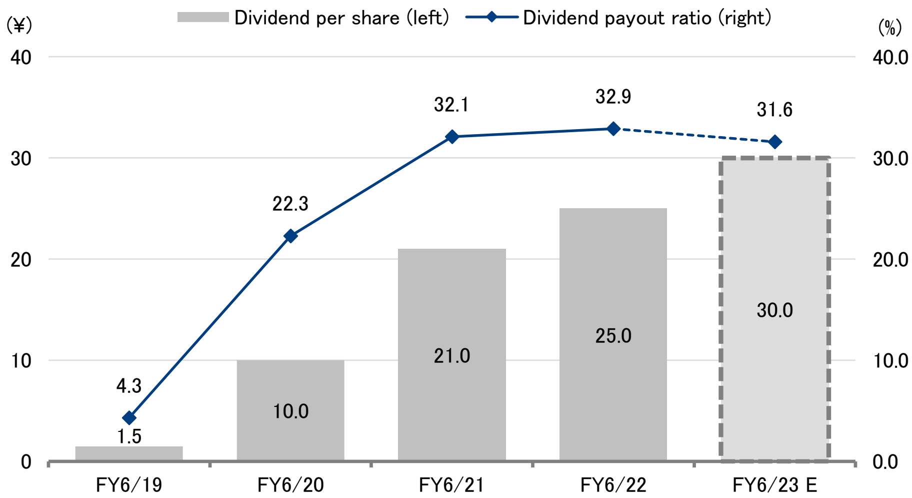
Source: Prepared by FISCO from the Company's financial results

Shareholder return policy

Dividends to be paid with a target payout ratio of 30-35%

The Company regards the return of profits to shareholders as an important management issue. The Company has indicated that its basic policy on distributing profits is to strive to improve dividends according to business performance and profit levels, while providing stable dividends based on consideration of earnings conditions. Concurrently, the Company will ensure adequate internal reserves needed for future business expansion and strengthening the management structure. With respect to the dividend per share for FY6/23, the Company plans to increase the dividend amount ¥5.0 YoY to ¥30.0, which would mark the fourth consecutive year of dividend increases since its listing on the stock market. It targets a dividend payout ratio in the 30%-35% range, and intends to continue dividend increases alongside earnings growth.

Trends in dividend per share and dividend payout ratio



Note: The Company conducted a two-for-one stock split in June 2020. Figures for FY6/19 have been retrospectively adjusted.
Source: Prepared by FISCO from the Company's financial results

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