COMPANY RESEARCH AND ANALYSIS REPORT

System Support Inc.

4396

Tokyo Stock Exchange Prime Market

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Index

Summary

Forecasts continued double-digit growth in sales and profits driven by Cloud Integration Business

System Support Inc. <4396> (hereinafter, "the Company") is an independent IT company that continues to grow, centered on supporting the introduction and use of various cloud infrastructure-related services, ERP, databases, etc., using its strength of industry-leading technological capabilities. 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 North America. The Company is also focused on recurring-revenue businesses, including data center services and the Product Business, which mainly consists of providing cloud (SaaS) services in in-house products.

1. Outline of results for 1H FY6/24

In 1H FY6/24 (July 2023 to December 2023), the Company set consecutive record high results. Net sales increased 15.5% YoY (year-on-year) to ¥10,635mn and operating profit rose 19.0% to ¥883mn, thereby exceeding the Company's forecasts (net sales of ¥10,634mn, operating profit of ¥862mn). These gains are primarily attributable to the mainstay Cloud Integration Business having achieved substantial growth with its net sales having increased by 39.5% to ¥3,340mn given a scenario of steady progress in hiring and training engineers amid ongoing expansion of corporate DX investment. The favorable results included those of resale income from providing migration and usage support of the main cloud infrastructure platforms such as AWS, Microsoft Azure, and Google Cloud, in addition to persisting double-digit growth in net sales of highly profitable ServiceNow*-related services, which increased by 29.0%. The Company achieved sales and profit increases exceeding forecasts also in the Outsourcing Business centered on data center-related services, the Product Business, and the Overseas Business.

> * "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. Outlook for FY6/24

For FY6/24 consolidated results, the Company's initial forecasts have been left unchanged in projecting that net sales will increase 13.1% YoY to ¥21,784mn and operating profit will increase 21.0% to ¥1,763mn. At FISCO, we deem it highly likely that full-year financial results will somewhat exceed forecasts given a negligible impact of the Noto Peninsula Earthquake on the Company amid an ongoing scenario of robust demand in the cloud integration sector. Meanwhile, strong interest in the Azure OpenAI Service* deployment support service and other such solutions enlisting generative AI suggests the likelihood that such solutions will contribute to higher earnings going forward. The Company managed to hire 106 new graduates in spring 2024, largely as planned, with the intention of hiring a total of 200 recruits, including mid-career employees (185 people in the previous period). The operating margin is poised to rise further due to growth achieved in the high added-value Cloud Integration Business, despite a likelihood of the Company incurring higher personnel, recruiting, and education costs.

> * Azure OpenAI Service is a service provided by Microsoft to companies. User companies are able to use language models developed by Open AI such as ChatGPT, GPT-3.5, and Codex through Microsoft Azure. Unlike the service environment of models like ChatGPT, which has been made publicly available for free through OpenAI, Azure offers the advantage of being protected by high-level security.

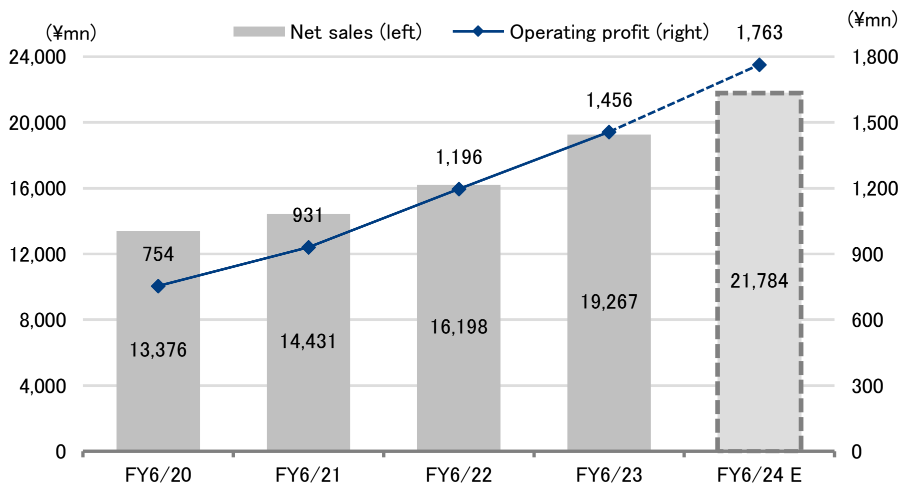
3. Medium-term management plan

The Company has set targets of ¥26,805mn or higher for net sales and of ¥2,407mn or higher for operating profit in FY6/26, which serves as the final fiscal year of its medium-term management plan. With this amounting to three-year average annual growth rates of more than 11.6% in net sales and more than 18.2% in operating profit, the Company seems to be making progress at a steady pace in that regard. In terms of business segments, the Cloud Integration Business is poised to achieve sales growth at an annual rate of 20-30% as the Company engages in its priority measures that involve expansion of services that form the foundation of DX promotion for customers and society, promoting the growth and success of diverse human resources, and strengthening ESG management. At FISCO, we believe that the Company is sufficiently capable of achieving its performance targets assuming that it makes steady progress in hiring and training engineers, given the ongoing prospect going forward of mounting demand for corporate cloud migration and application of AI to business operations. Regarding its policy on shareholder returns, the Company plans to pay dividends with a payout ratio at the 30-35% level. The per-share dividend for FY6/24 is expected to increase for the fifth consecutive period to ¥36.0 (payout ratio of 31.9%), an increase of ¥4.0 from the previous fiscal year.

Key Points

- Cloud Integration Business was the driving force in achieving double-digit sales and profits in 1H FY6/24
- Consecutive record high results likely amid steady progress achieved toward FY6/24 performance targets
- High rate of growth in the cloud services market poised to persist going forward partially given proliferation of AI solutions; Aiming to achieve double-digit growth over the medium term

Results trends



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

Company profile

An independent IT company that continues to grow led by its Cloud Integration Business

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, momentarily putting the Company's survival at risk. However, in 1994, the Company worked to rationalize management under the strong leadership of the current Representative Director Ryoji Koshimizu who took over management from the Company's founder. 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 goes 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. Additionally, in 2013, the Company established a subsidiary in the US for the purpose of gathering information and supplying IT services in the country. 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, the Company newly established STS DIGITAL, Inc. in October 2023, and the digital marketing business was transferred from ACROSS Solutions, Inc.

History

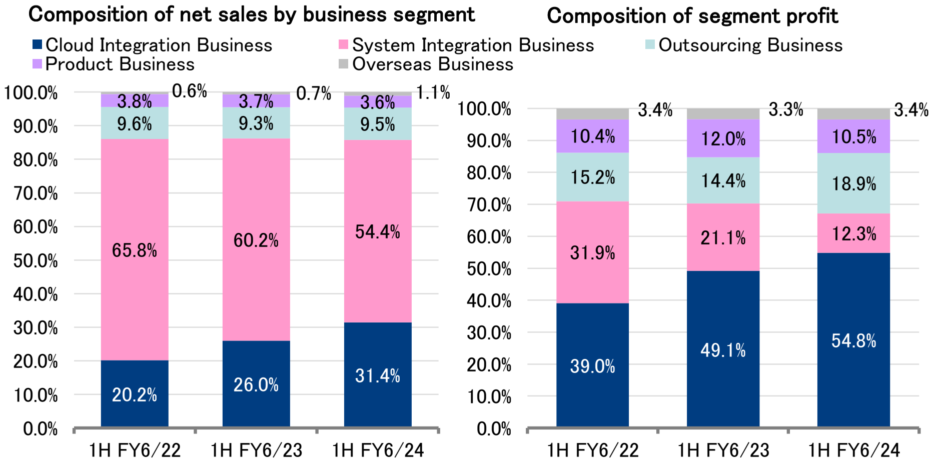
Date	Major event
January 1980	Founded in Kanazawa, Ishikawa Prefecture, providing data entry and system development services.
November 2000	Financed and founded eNet Solutions Co., Ltd.
January 2004	Entered into an Oracle EBS Technical Partner contract with Oracle Corporation Japan <4716>
February 2005	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 agreement 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 and 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)
October 2023	Financed and founded STS DIGITAL, Inc.

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

Five businesses centering on the Cloud Integration Business

2. Business description

The System Support Group comprises the Company and its seven consolidated subsidiaries. The Group discloses information based on five business segments, specifically the Cloud Integration Business, System Integration Business, Outsourcing Business, Product Business, and Overseas Business. Looking at the sales composition in 1H FY6/24, whereas the System Integration Business accounted for 54.4% of sales, the Cloud Integration Business accounted for 54.8% of profits with the composition ratio of the System Integration Business lower at 12.3% of profits. This is because the shared portions of SG&A expenses are allocated to each business segment in proportion to cost of sales. Meanwhile, the profit composition ratios are roughly on par with the sales composition ratios when looking at distribution of gross profit of which 45.4% is attributable to the System Integration Business and 32.6% is attributable to the Cloud Integration Business. However, developments over the past three years indicate an upward trend from one year to the next in terms of the proportion of overall results attributable to the Cloud Integration Business, which is poised to eventually surpass that of the System Integration Business.



Note: Figures presented for composition of segment profit indicate amounts prior to adjustment for operating profit in the consolidated financial statements
Source: Prepared by FISCO from the Company's supplemental results briefing materials

(1) Cloud Integration Business

In the Cloud Integration Business, the Company implements and supports the use of various types of cloud infrastructure-related services including ServiceNow, AWS, Microsoft Azure, Google Cloud and Oracle Cloud Infrastructure, and also resells the licenses for them. Looking at the sales composition in 1H FY6/24, ServiceNow-related services were highest at 35.6%, followed by AWS at 35.0%, Google Cloud at 11.6% and Microsoft Azure at 9.1%. License resales, which serve as a recurring-revenue business, accounted for 33.1% of sales in this segment.

Orders for cloud-related services are often via referrals from cloud providers, so an important element in increasing orders is training large numbers of engineers certified on each of the cloud infrastructure-related services and gaining a track record of development projects with high customer satisfaction. For this reason, the Company is focused on hiring and training certified engineers, and as a result of its efforts, it has received many awards related to Microsoft Azure, AWS, Google Cloud and Oracle. Profitability is relatively stable, and with regard to ServiceNow services in particular, the Company has amassed a substantial development track record, being the first company in Japan to get involved in the platform. In part because of this, its ServiceNow business has the highest profitability of all its cloud services (The gross profit margin in 1H FY6/24 was 40.1%, surpassing the overall business segment's margin of 28.3%).

Regarding resales in terms of usage fees for AWS cloud services, the cloud service provider sends U.S. dollar-denominated invoices to the Company, which in turn converts such amounts to yen, adding a certain margin, and subsequently bills customers in yen. As such, a scenario of yen depreciation in currency markets would serve as a factor underpinning higher net sales and gross profit, but such a scenario could also diminish use of services given a greater payment burden on the customer side. Meanwhile, given an average settlement period of about one to two months, there are instances where rapid yen depreciation during that time culminates in foreign exchange loss related to dollar-denominated debt.

Track record of main certifications and awards

Microsoft Azure	AWS
• Obtained Gold Cloud Platform Competency Certification (March 2018) Certified as a partner with an outstanding track record in expanding Microsoft Azure • Obtained Advanced Specialization (November 2020)*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 area from 2017 to 2022*2 • Received Microsoft Top Partner Engineer Award Received awards in the Azure field in 2023*2	• Obtained Oracle Competency in the AWS Competency Program*3 (November 2014) • Received the APN Partner Award “Rising Star of the Year” (FY2014) • Selected 2023 Japan AWS All Certifications Engineers*2 **Google Cloud** • Acquired Data Analytics Specialization in the Partner Advantage Program (September 2022) and Application Development Specialization (January 2024) **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

(2) System Integration Business

The System Integration Business includes consulting, design, development, and operation and maintenance for corporate IT systems and also technical support for the deployment and use of ERP packages, and infrastructure construction for Oracle Database and other systems (Oracle Cloud Infrastructure services are included in the Cloud Integration Business). Regarding the sales composition in 1H FY6/24, IT system development accounted for 57.1%, followed by ERP-related services at 27.7% and database-related services at 15.1%.

For major projects such as system development for financial institutions and ERP construction, the Company does not receive orders directly; rather, there are many cases where they are undertaken on a subcontracted basis in order to prevent the risk of unprofitability caused by delivery delays and other such trouble. Profitability is lower, but major projects contribute to sales over the long term, so they play a role in maintaining the utilization rates of engineers at fixed levels.

(3) Outsourcing Business

In the Outsourcing Business, management services at data centers in two locations in Japan (Tokyo and Kanazawa) managed by subsidiary eNet Solutions account for 80.1% of net sales. The remaining 19.9% is taken up by data analysis and entry and system operation and maintenance on a nearshore basis.

The Company has more than 1,000 corporate customers with respect to its data centers, which are primarily used by such customers as infrastructure for private clouds or for business continuity planning (BCP) and data backup management. The Company also provides added-value services as a strategy for acquiring data center customers and as an upselling measure. It began providing Safetylink24, an emergency notification and safety confirmation service that automatically distributes safety confirmation messages for employees linked to earthquake information and offers ActionPassport, a work flow system, and ActiveAssets, an online storage service, and since 2017 the Company has been providing Magic Insight, a service that allows customers to use IBM Japan, Ltd.’s IBM Watson Explorer (an AI-driven search and analysis platform) with a monthly charge plan. In its data center services there is a recurring-revenue structure whereby monthly sales increase as a result of growing customer numbers and greater customer service use, the Company appropriately invests in servers and additional capacity otherwise in alignment with demand.

(4) Product Business

In the Product Business, the Group is engaged in the development and sales of products (software) and the provision of services. It also customizes products according to customer needs. Its current four main products are Tate Yakusha, a construction work information management system for the construction industry, MOS, a mobile order receipt and placement system primarily for the wholesale and retail industries, Shugyo Yakusha, an attendance and work management system, and SHIFTEE, a cloud-based shift management system, which respectively account for 35.2%, 29.1%, 13.0% and 9.0% of sales in 1H FY6/24. While the Company does receive orders for custom development projects from time to time and records sales associated with hardware when installed, around 59% 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. Most sales are direct sales (Tate Yakusha is often sold through the OEM channel), but the Company is also proactively making efforts on a distributor-based strategy in seeking to enhance its sales strengths.

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 light version starts at ¥40,000 per 5 licenses (initial cost: ¥30,000). The monthly charge for the standard version starts at ¥40,000 per 5 licenses (initial cost: ¥350,000). The monthly charge for the premium version starts at ¥80,000 per 5 licenses (initial cost: ¥580,000).	738
MOS	ACROSS Solutions, Inc.	A mobile order receipt and placement system. MOS Lite is priced at ¥19,800 per month (not customizable); MOS pricing varies depending on options and customization.	808
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).	131
Shugyo Yakusha	System Support Inc.	An attendance and work management system. The monthly charge for the cloud version is ¥200 per user (separate charges apply for the on-premise version).	222

* As of December 31, 2023, on a cumulative basis
Source: Prepared by FISCO from the Company's supplemental results briefing materials and website

(5) Overseas Business

The Overseas Business consists of system integration services and recruitment services provided by a US subsidiary to Japan-affiliated companies doing business in North America and payroll and accounting outsourcing services provided by a Canadian subsidiary.

(6) Group companies and the number of employees

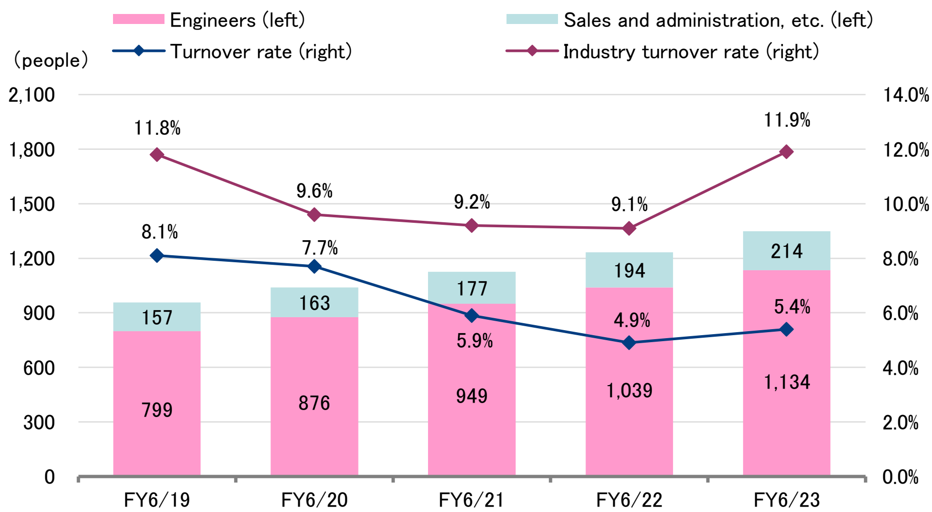
The Company's subsidiaries specialize in different functions and business sectors with the aim of proactively and swiftly providing new solutions to customers on a continual basis. The number of employees was 1,348 on a consolidated basis at the end of FY6/23, an increase of 115 people from the end of FY6/22. 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, 13% in Tokai, and slightly less than 1% overseas. The Company carries out hiring in a manner that strikes a good balance between regions in order to cope with escalating demand. The Group's turnover rate is low, at around 5% in contrast to the industry average of around 10%. This is seemingly attributable to active efforts encompassing not only enhancements to salaries and benefits but also improvements to workplace environments in part by fully covering costs of obtaining certifications for developing skills of engineers and by establishing telework settings.

Description of main businesses of Group companies

Name of company	Cloud Integration Business	System Integration Business	Outsourcing Business	Product Business	Overseas Business
System Support Inc.	Technical support associated with migration and use of cloud services, and resale of licenses, etc.	Technical support for deployment and use of ERP packages, infrastructure construction, and IT system development	Data entry services, nearshore operation and maintenance	Development and sales of Tate Yakusha, a construction work information management system, and other products	-
eNet Solutions Co., Ltd.	-	Deployment of various solutions	Private cloud and other data center services	-	-
T4C Co., Ltd.	-	Technical support for deployment and use of ERP packages	-	-	-
STS Medic Inc.	-	Sale and installation of medical devices and other items	-	Sales and deployment support for T-File, a medical image filing system	-
ACROSS Solutions, Inc.	-	Website and online content planning and development	-	Development and sale of MOS mobile order receipt and placement system	-
STS DIGITAL, Inc.	-	Digital marketing services	-	-	-
STS Innovation, Inc.	-	-	-	-	System integration and recruitment services, media management
STS Innovation Canada Inc.	-	-	-	-	Outsourcing of payroll and accounting processes

Source: Prepared by FISCO from the Company's website

Trend in the number of consolidated employees and turnover rate



Note: Figures presented for industry turnover rate are according to data on separation rates by industry (information and communications industry) of the Ministry of Health, Labour and Welfare "Survey on Employment Trends."
Source: Prepared by FISCO from the Company's supplemental results briefing materials

Results trends

Double-digit growth in sales and profits in 1H FY6/24 with the Cloud Investment Business as the driving force

1. Outline of results for 1H FY6/24

In 1H FY6/24 consolidated results, the Company achieved sales and profits increases exceeding Company forecasts and recorded continual record highs, as net sales increased 15.5% YoY to ¥10,635mn, operating profit rose 19.0% to ¥883mn, ordinary profit was up 18.7% to ¥899mn and profit attributable to owners of parent was up 20.9% to ¥614mn.

Results for 1H FY6/24

(¥mn)

	1H FY6/23		1H FY6/24				
	Results	% of net sales	Company forecast	Results	% of net sales	YoY	Achievement rate
Net sales	9,211	-	10,634	10,635	-	15.5%	0.0%
Cost of sales	6,711	72.9%	-	7,734	72.7%	15.2%	-
SG&A expenses	2,499	27.1%	-	2,900	27.3%	16.0%	-
Operating profit	1,756	19.1%	-	2,016	19.0%	14.8%	-
Ordinary profit	743	8.1%	862	883	8.3%	19.0%	2.5%
Extraordinary profit	757	8.2%	856	899	8.5%	18.7%	5.0%
Profit attributable to owners of parent	508	5.5%	567	614	5.8%	20.9%	8.4%

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

The Company has been operating in a favorable business environment even amid persisting future uncertainty attributable to concerns regarding potential effects of rising prices, ongoing depreciation of the yen, escalating tensions in the Middle East, and other such developments. For instance, the Company has been encountering mounting demand for new solutions involving migration of information systems to the cloud and application of generative AI and IoT technologies undertaken by companies highly engaged in DX initiatives with aims of promoting corporate labor savings and streamlining operations. Net sales of the Cloud Integration Business in particular surged by 39.5% YoY, thereby serving as a driving force underpinning the Company's overall financial results.

On the profit front, gross profit increased 16.0% YoY to ¥2,900mn amid a scenario where the cost-of-sales ratio declined from 72.9% in the same period of the previous fiscal year to 72.7% due to changes in the sales mix and effects of increased sales. The operating margin rose to 8.3% from 8.1% in the same period of the previous fiscal year amid a scenario where the increase in sales absorbed higher SG&A expenses, which increased 14.8% YoY mainly due to personnel, recruiting, R&D, and other such costs. Meanwhile, although results of the System Integration Business were slightly below the Company forecast, the Company made firm progress toward achieving the full-year target given that all of its other business segments, especially the Cloud Integration Business, exceeded forecasts.

Business continues to be brisk for Cloud Integration Business

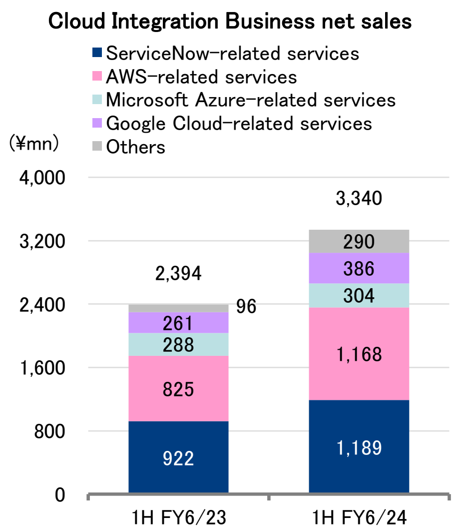
2. Trends by business segment

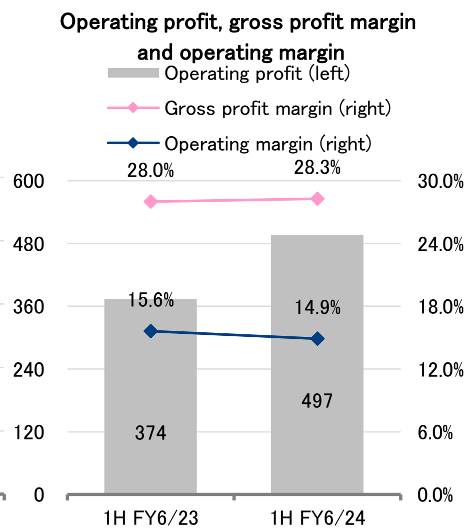
(1) Cloud Integration Business

The Cloud Integration Business continued to achieve substantial growth in both sales and profits, with net sales up 39.5% YoY to ¥3,340mn, and operating profit up 32.8% to ¥497mn. Although higher SG&A expenses resulted in a decrease in operating margin to 14.9% from 15.6% in the same period of the previous fiscal year, gross profit margin increased from 28.0% to 28.3%. Whereas the share of sales associated with ServiceNow-related services declined to 40.1% from 43.3% in the same period of the previous fiscal year due to an increase in the proportion of low-margin license sales, gross profit margin increased due to a scenario where a downturn in the proportion of resale sales (down 3.2pp YoY to 51.4%) prompted improvement in profit margins associated with other services for cloud infrastructure migration and usage support.

Looking at a breakdown of net sales, ServiceNow-related services continued to be strong, increasing by 29.0% YoY to ¥1,189mn, while AWS-related services increased 41.6% to ¥1,168mn, Microsoft Azure-related services increased 5.6% to ¥304mn, Google Cloud-related services rose 47.9% to ¥386mn, and other services went up 202.1% to ¥290mn. There was sales growth in all cloud infrastructure-related services. Although the growth rate of Microsoft Azure-related services remained low, the Company contends that this is a temporary situation given strong interest in Azure OpenAI-related services. Meanwhile, the Company has achieved steady expansion with respect to its Celonis EMS solutions*, which it began handling in 2022, in addition to substantial growth in Oracle Cloud Infrastructure-related services.

* In 2022, the Company began handling the Celonis Execution Management System (EMS), which is a process mining platform offered by Celonis SE (Germany). Process mining is an approach for improving business operations. It involves assessing various business operations by visually rendering such operations. Celonis EMS has captured a high share of the market primarily among global enterprises given that such solutions enable enterprises to implement and subsequently monitor improvement strategies upon having identified root causes of inefficient tasks revealed through dynamic analysis, above and beyond visually rendering operations. With a strategic partnership having been formed between Celonis and ServiceNow in October 2021, we at FISCO believe that this will result in a high likelihood of the Company receiving orders when enterprises with a track record of implementing Service Now opt to implement the Celonis platform.





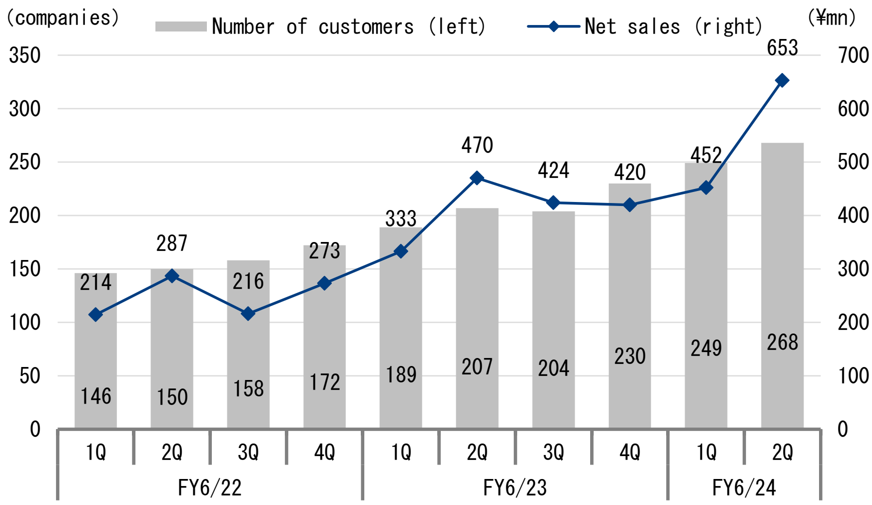
Source: Prepared by FISCO from the Company's supplemental results briefing materials

Given that the Cloud Integration Business apparently continues to draw many inquiries regarding ServiceNow-related services, the Company has been seeking to strengthen the framework of the business in part by hiring and training new engineers and reallocating resources from the System Integration Business. According to documents released by ServiceNow Japan G.K., the number of ServiceNow development certifications obtained by the Company had increased to 386 as of November 2023, from 109 as of September 2021, thereby putting it at the No. 3 spot in Japan after Fujitsu Limited <6702> and Accenture <ACN>*. Whereas the number of ServiceNow partner companies has been increasing in alignment with market expansion, recognition of the impressive ServiceNow track record and high levels of customer satisfaction have prompted an upward trend with respect to inquiries received from end customers and consulting firms above and beyond business involving referrals from ServiceNow, Inc.

* As of November 2023, there have been 5,390 certifications with Fujitsu and Accenture obtaining 650 and 449 certifications, respectively.

The Company's cloud infrastructure-related migration and usage support services other than ServiceNow-related services constitute a stable revenue source. Accordingly, the Company has been leveraging its technical database capabilities cultivated over many years in achieving growth in projects for migration and configuration of cloud-based databases and data analysis platforms. In addition, the Company has achieved steady growth in post-migration resale net sales, which increased 37.4% YoY to ¥1,105mn in conjunction with an increase in customer numbers. The number of corporate customers stood at 268 companies at the end of 1H FY6/24 for an increase of 61 companies relative to the end of 1H FY6/23. Customer spending per purchase has also been trending higher due to an expanding range of service usage domains and effects of yen depreciation.

Number of customers and resale net sales

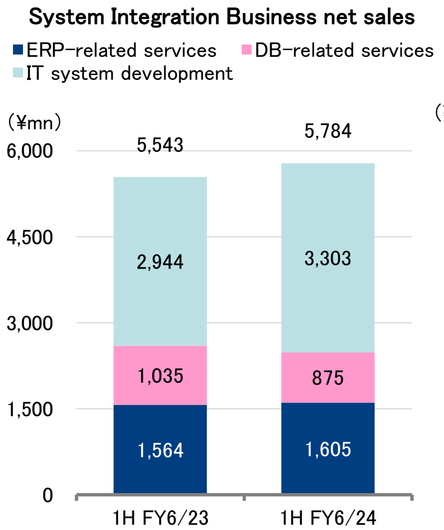


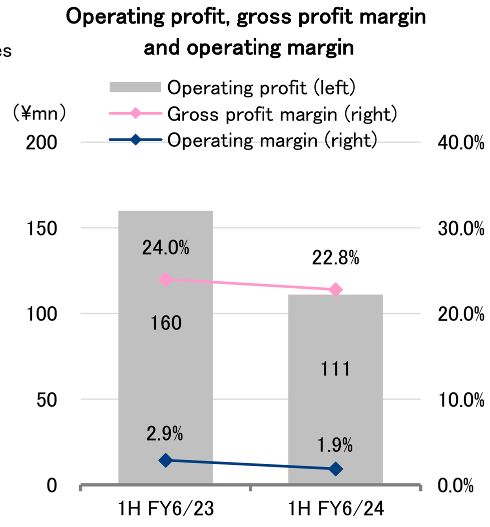
Source: Prepared by FISCO from the Company's supplemental results briefing materials

(2) System Integration Business

Net sales of the System Integration Business increased 4.3% YoY to ¥5,784mn and operating profit decreased 30.5% to ¥111mn. The decrease in profitability is attributable to a downturn in gross profit margin (down 1.2pp from 1H FY6/23 to 22.8%) due to an increase in the percentage of outsourcing costs, and also attributable to an increase in SG&A expenses encompassing corporate overhead costs. The higher percentage of outsourcing costs is largely attributable to a situation where the Company has been shifting resources through engineer reskilling in order to address robust demand in the Cloud Integration Business. However, the notion that gross profit declined only slightly, down 0.9% to ¥1,318mn, seems to suggest resiliency in terms of actual earning power of the business. It is worth noting that whereas sales of database-related services underperformed in 1H FY6/23 results only with respect to the System Integration Business out of all the business segments, this was primarily attributable to a situation where its sales of database-related services decreased more than anticipated as a result of customers migrating to the cloud, with such business accordingly transitioning to the Cloud Integration Business.

Looking at the breakdown of net sales, IT system development performed favorably, increasing 12.2% YoY to ¥3,303mn, as did ERP-related services which increased 2.6% to ¥1,605mn, but net sales in database-related services decreased 15.5% to ¥875mn. IT system development saw double-digit growth due to the trend toward larger projects. In ERP-related services, business remained solid in a situation where companies continue to migrate to SAP S/4 HANA in anticipation of the end of maintenance support (at the end of 2027) for SAP's existing product.



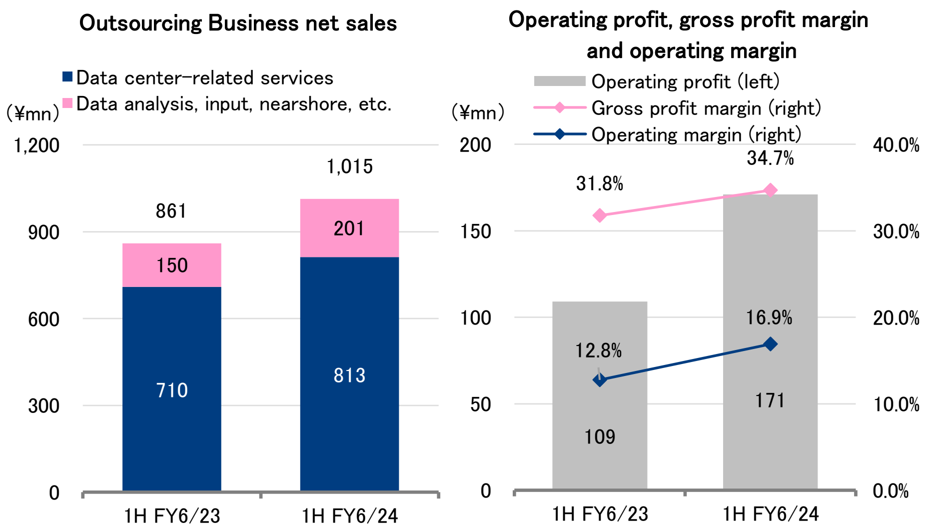


Source: Prepared by FISCO from the Company's supplemental results briefing materials

(3) Outsourcing Business

Net sales from the Outsourcing Business increased 17.9% YoY to ¥1,015mn, and operating profit rose 56.3% to ¥171mn, resulting in double-digit growth for both sales and profits. The gross profit margin rose 2.9 pp YoY to 34.7%, and gross profit rose 28.7% YoY to ¥351mn due to the effect of higher sales and an order for a data analysis and input service that was highly profitable.

Looking at the breakdown of net sales, data center-related services increased 14.5% YoY to ¥813mn, and maintenance services, including data analysis and input and nearshore operation and maintenance, rose 34.0% to ¥201mn, so results were strong in both areas. Sales in data center services increased mainly due to higher usage fees per corporate customer associated with greater customer service use. A gradual shift in information system formats on the customer side from on-premise configurations to private cloud configurations using data centers has led to an upward trend in customer spending per purchase. In addition, whereas a highly profitable order for data analysis and input services was made on an ad hoc basis, the business is expected to persist into 2H FY6/24. The Company's efforts to strengthen the SAP ERP product maintenance operations structure in its nearshore business prompted an increase in sales. In this business, monthly usage fees and other recurring-revenue sales steadily increased, up 8.9% to ¥685mn.

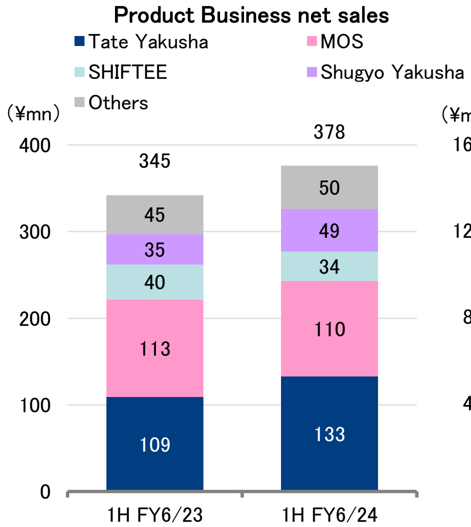


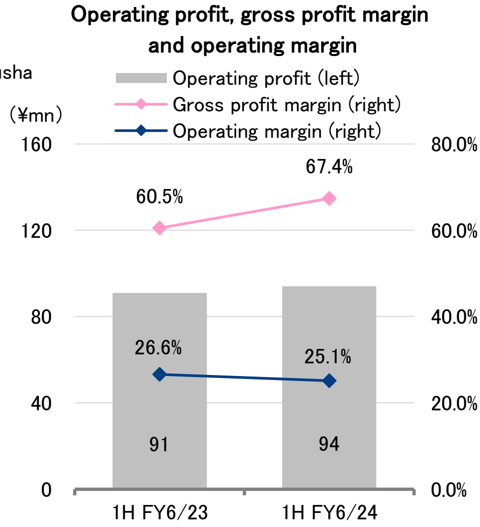
Source: Prepared by FISCO from the Company's supplemental results briefing materials

(4) Product Business

Product Business results were strong with net sales having increased 9.7% YoY to ¥378mn and operating profit having gained 3.5% to ¥94mn. Although gross profit achieved double-digit gains, having increased 22.2% YoY to ¥254mn as a result of the Company having landed a new highly profitable deployment project involving Tate Yakusha and also as a result of it having accumulated monthly usage fees and other recurring-revenue sales, operating profit gains remained incremental given higher SG&A expenses as a result of the Company participating in trade shows and actively engaging in sales activities to attract new customers. Nevertheless, progress in operating profit appears to have outperformed the Company forecast.

Looking at the breakdown of net sales, the segment encountered a stark contrast in results depending on the service. Accordingly, in contrast to favorable results achieved by Tate Yakusha, up 22.0% YoY to ¥133mn, and Shugyo Yakusha, up 40.0% to ¥49mn, decreases were incurred by MOS, down 2.7% to ¥110mn, and SHIFTEE, down 15.0% to ¥34mn. With both Tate Yakusha and Shugyo Yakusha, the Company has made steady progress in attracting new customers amid successes achieved with respect to participating in trade shows and engaging in initiatives involving its distributor-based strategy. With SHIFTEE, the Company has been steadily accumulating recurring-revenue sales, although fewer customizations at time of service deployment contributed to lower sales. Monthly usage fees and other recurring-revenue sales were up 14.2% to ¥223mn, with such sales accounting for 59.0% of the sales composition for an increase of 2.5pp. Equipment sales excluding recurring-revenue sales and customization project sales decreased slightly.





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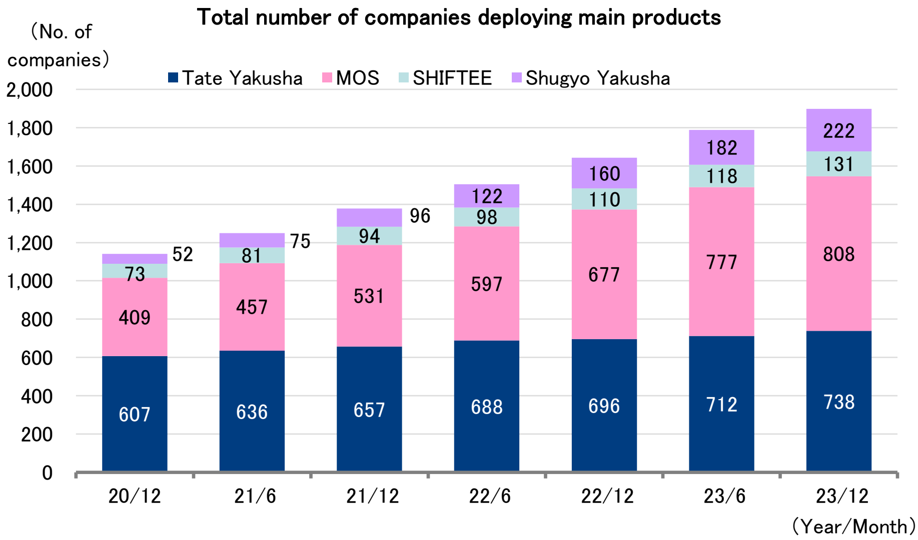


Source: Prepared by FISCO from the Company's supplemental results briefing materials

(5) Overseas Business

In the Overseas Business, net sales increased 72.8% YoY to ¥115mn and operating profit rose 22.8% to ¥31mn. The business segment achieved favorable performance with respect to system integration and recruitment services carried out in North America, as well as payroll and accounting outsourcing services. Meanwhile, whereas gross profit margin decreased to 43.9% from 53.9% in the same period of the previous fiscal year due to a low profit margin on previously ordered system integration projects, gross profit marked double-digit gains, up 40.8% YoY to ¥50mn due to effects of increased sales.

Equity ratio continues to rise and financial position remains sound

3. Financial condition and business indicators

Looking at the Company's financial condition as of the end of 1H FY6/24, total assets were ¥9,569mn, an increase of ¥699mn from the end of FY6/23. In current assets, cash and deposits increased by ¥533mn and notes and accounts receivable - trade, and contract assets increased by ¥156mn. In non-current assets, property, plant and equipment increased by ¥27mn, but intangible assets decreased by ¥23mn and investments and other asset decreased by ¥3mn.

Total liabilities increased by ¥199mn from the end of FY6/23 to ¥4,945mn. Due to borrowings for working capital, interest-bearing debt increased by ¥729mn, but accrued expenses decreased by ¥643mn. Total net assets were ¥4,624mn, an increase of ¥499mn from the end of FY6/23. This was primarily caused by an increase of ¥438mn in retained earnings as a result of having recorded profit attributable to owners of parent and the payment of dividends.

Looking at business indicators, the equity ratio increased from 46.5% at the end of FY6/23 to 48.3% due to an increase in shareholders' equity. The interest-bearing debt ratio increased from 24.5% to 37.6%, but in a normal year the ratio tends to decrease heading toward the end of the fiscal year due to borrowing undertaken to secure working capital at the end of the first half of the fiscal year. Given that there has been substantial improvement in the interest-bearing debt ratio, which stood at 43.0% as of the end of 1H FY6/23, there is a high likelihood that at the end of FY6/24 it will have decreased further from its level at the end of FY6/23. At FISCO, we envision a scenario where net cash at the end of FY6/24 will have increased further relative to that at the end of FY6/23 given that net cash (cash and deposits minus interest-bearing debt) remains positive and given that the outlook calls for continuance of favorable earnings in 2H FY6/24.

Consolidated balance sheet and management indicators

(¥mn)

	FY6/21	FY6/22	FY6/23	1H FY6/24	Change
Current assets	5,319	6,303	7,139	7,892	752
(Cash and deposits)	2,697	3,254	3,568	4,102	533
Non-current assets	1,342	1,511	1,730	1,677	-53
Total assets	6,662	7,815	8,870	9,569	699
Total liabilities	3,669	4,393	4,746	4,945	199
(Interest-bearing debt)	952	1,149	1,009	1,738	729
Total net assets	2,993	3,421	4,124	4,624	499
(Security)					
Equity ratio	44.9%	43.8%	46.5%	48.3%	1.8pt
Interest-bearing debt ratio	31.8%	33.6%	24.5%	37.6%	13.1pt
Net cash	1,744	2,105	2,559	2,364	-195

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

Outlook

Consecutive record high results likely amid steady progress achieved toward FY6/24 performance targets

1. Outlook for FY6/24

For its consolidated results in FY6/24, the Company's initial forecasts have been left unchanged with net sales to increase 13.1% YoY to ¥21,784mn, operating profit to rise 21.0% to ¥1,763mn, ordinary profit to go up 19.8% to ¥1,755mn, and profit attributable to owners of parent to increase 15.6% to ¥1,167mn. The Noto Peninsula Earthquake, which struck on January 1, 2024, appears to have had a negligible effect on the Company's overall business performance, despite several business partners having been affected by the disaster, yet no human casualties were incurred. Meanwhile, financial results achieved up through 1H FY6/24 have progressed at a pace slightly exceeding that of the forecasts. Also, the prevailing status of orders has been strong centered on the Cloud Integration Business, and HR recruitment has progressed largely according to plan. As such, it is highly likely that the Company will achieve its forecasts again in FY6/24, with consecutive double-digit gains in sales and profits, potentially setting new record highs.

Outlook for FY6/24 consolidated results

(¥mn)

	FY6/23		FY6/24			Achievement rate through 1H
	Results	% of net sales	Company forecast	% of net sales	YoY	
Net sales	19,267	-	21,784	-	13.1%	48.8%
Operating profit	1,456	7.6%	1,763	8.1%	21.0%	50.1%
Ordinary profit	1,465	7.6%	1,755	8.1%	19.8%	51.2%
Profit attributable to owners of parent	1,009	5.2%	1,167	5.4%	15.6%	52.7%
Net profit per share (¥)	97.52		112.75			

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

In terms of expenditures, efforts of the Company to strengthen its personnel systems are likely to culminate in higher personnel costs and investment-related expenses (recruitment-related expenses, training expenses, R&D expenses). Operating expenses are also likely to rise due to efforts to attract customers. However, the operating margin is poised to increase to 8.1% from 7.6% in the previous fiscal year due to effects of increased sales and changes in the sales composition. Meanwhile, the Company's recruitment plan for FY6/24 calls for hiring a total of 200 employees, including 106 new graduates (85 in the previous period) and 94 mid-career employees (100 in the previous period). The Company has made job offers to 106 new graduates against its initial target of 111 new graduates. When it comes to mid-career hires, the Company has been making steady progress with respect to its plans for hiring 50 mid-career professionals up through 1H amid intensifying competition to attract IT professionals. This seems to indicate that such candidates appreciate the Company's active efforts in the realm of health management, as well as its initiatives that involve improving salaries and benefits and upgrading its education program for the sake of enhancing employee skills. With human resources serving as a wellspring of business growth, the Company deserves favorable marks for the steady progress it has achieved with respect to recruitment particularly amid the prevailing scenario where many companies have been struggling when it comes to recruitment and falling short when it comes to achieving growth, even though a favorable environment persists in the IT industry.

Number of personnel hired (consolidated)

	FY6/21	FY6/22	FY6/23	FY6/24 plan
New graduate recruitment	60	70	85	106
Mid-career recruitment	89	83	100	94
Total number of personnel hired	149	153	185	200
Turnover rate	5.9%	4.9%	5.4%	-

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

(1) Cloud Integration Business

The Cloud Integration Business is likely to once again achieve a double-digit increase in net sales relative to the previous fiscal year. The rate of growth in net sales is likely to remain substantial again in 2H, on par with 1H, amid a scenario of robust orders centered on the mainstay ServiceNow-related services, though the rate of growth is likely to slow relative to the 57.0% increase achieved in the previous fiscal year. Services for cloud infrastructure migration and usage support are poised to mount substantial growth on an ongoing basis, with respect to AWS, Microsoft Azure, and Google Cloud. The Company has been encountering a growing tendency among enterprises implementing such solutions toward their use of multiple cloud platforms in order to diversify risk, which has fueled momentum of the Company given that it has established a framework capable of accommodating the three major platforms.

Meanwhile, the Cloud Integration Business is likely to expand its range of solutions-based services that enlist AI technologies. The Company has rolled out a number of services starting with its launch in May 2023 of its solutions for supporting implementation of the Azure OpenAI Service for enabling use of AI services such as ChatGPT on the Microsoft Azure platform. In October 2023, the Company launched services to support implementation of Amazon Bedrock*1 provided by AWS. The Company also launched Smart Generative Chat for Amazon Bedrock, which serves as an Amazon Bedrock-compatible version of the Smart Generative Chat AI assistant chat system for enterprises developed by the Company. In January 2024, the Company launched its Generative AI Deployment Support Service for Google Cloud*2 and its Discovery AI Deployment Support Service for the Retail Sector*3, both of which enlist Google Cloud AI technology. Enterprises that have been adopting AI technologies with the aims of streamlining operations and enhancing added value of services are poised to ramp up such efforts in 2024 and beyond. As such, this serves as an opportunity for the Company to seek business expansion by providing a full range of services covering everything from development to use of cloud infrastructure.

*1 Amazon Bedrock is a fully managed service for generative AI released by AWS for general availability in September 2023. It enables access to foundation models (machine learning models) provided by Amazon and major AI startup companies through APIs.
*2 The Generative AI Deployment Support Service for Google Cloud is a service that facilitates everything from planning and conceptualizing corporate business application of generative AI solutions to measuring proof of concept (PoC) effectiveness and conducting operational review.
*3 The Discovery AI Deployment Support Service for the Retail Sector is a service for enterprises in the retail sector such as those operating e-commerce websites. It enables such enterprises to implement cutting-edge AI technology of Discovery AI, which is provided by Google Cloud to improve e-commerce website performance with respect to metrics such as CVR (conversion rate).

(2) System Integration Business

The System Integration Business is likely to achieve a single-digit increase in net sales relative to the previous fiscal year. Meanwhile, whereas database-related sales are expected to keep decreasing due to the impact of cloud migration as was the case in 1H, plans call for offsetting the decrease with increased sales from ERP-related services and other system development projects. Additionally, the percentage of outsourcing costs is bound to remain at high levels as the Company shifts engineers over to the Cloud Integration Business through reskilling, which may result in a decrease in profit as was the case in 1H.

(3) Outsourcing Business

The Outsourcing Business is poised to achieve a net sales gain in the 10% range relative to the previous fiscal year. This increase is attributable to the likelihood of steadily increasing recurring-revenue sales again in 2H and strong performance of data analysis and input services as well as services involving system operation and maintenance on a nearshore basis.

(4) Product Business

The Product Business is likely to achieve a single-digit increase in net sales relative to the previous fiscal year. In carrying out initiatives to increase sales, the Company will proceed with efforts again in 2H that involve attracting prospective customers through participation in trade shows and implementing sales distributor-based strategy. The distributor-based strategy will involve building stronger relationships with distributors by regularly holding briefing sessions to ensure greater depth of product understanding. This will also entail efforts to facilitate sales of distributors through future upgrades of features to a level where there is no longer a need for additional features and other such customizations, which were previously required on a per-customer basis.

Regarding new products, the Company installed its Smart Rabbit Food inventory management system for restaurants from July 2023, having developed it jointly with Baycrew's Co., Ltd. The Smart Rabbit system automates tasks that restaurants previously assigned to procurement managers in terms of determining order quantities by forecasting restaurant inventories and predicting volumes of food consumed in restaurants based on sales forecasts and previous month-end inventories. The Smart Rabbit system automates ordering by linking with the order receipt and placement system* currently used by customers. It is anticipated that implementing the Smart Rabbit system will enable customers to streamline the order process, while also reducing food waste due to excess inventories and diminishing sales opportunity loss attributable to inventory shortages. Currently, the Company is in the process of improving its functions while verifying the effectiveness of the introduction of the system, and we at FISCO expect that full-scale sales expansion activities will take some time.

* The order receipt and placement system is integrated as a standard with the BtoB platform for order receipt and placement (provided by Infomart Corporation <2492>). Users of the system who do not use the platform may have it customized for an additional fee.

In January 2024, the Company rolled out new services under its strategy for attracting MOS (Mobile Ordering System) customers. This included release of the MOS Invoice*1 cloud-based electronic invoicing solution for coping with Japan's Qualified Invoice System (QIS) and Act on Special Provisions concerning Preservation Methods for Books and Documents Related to National Tax Prepared by Means of Computers. This also included release of the MOS Payment*2 solution that can be readily implemented to enable credit card payments. This strategy for attracting MOS customers entails gaining customers by heightening convenience through expansion of service functions.

*1 MOS Invoice automatically converts billing data into invoices, which can be shared with clients (parties placing orders) and stored electronically, as well as downloaded in PDF or CSV format.
*2 MOS Payment is a service that allows for easy credit card payment (2.45% payment processing fee) without the need for additional system development. MOS Payment employs credit card payment services provided by ZEUS Co., Ltd.

(5) Overseas Business

The net sales forecast of the Overseas Business projects an increase of approximately 10% relative to the previous fiscal year, with sales centered on accounting outsourcing services. However, progress toward the target has exceeded the forecast, particularly in terms of growth achieved in 1H with respect to system integration and recruitment services.

High rate of growth in the cloud services market poised to persist going forward partially given proliferation of AI solutions; Aiming to achieve double-digit growth over the medium term

2. Medium-term management plan

(1) Outline of medium-term plan

The Company announced its three-year medium-term management plan in August 2022, then formulated a new rolling plan up to FY6/26 in alignment with changes that have occurred over the past year with respect to market conditions and in consideration of progress in results up to August 2023. By engaging in the medium-term theme stated as “Growth and creation of further innovation” and three priority measures of expansion of services that form the foundation of DX promotion for customers and society, promoting the growth and success of diverse human resources, and strengthening ESG management, in FY6/26, it has set targets of net sales of ¥26,805mn or higher, operating profit of ¥2,407mn or higher, and an operating margin of 9.0% or higher. This amounts to three-year annual growth in net sales of more than 11.6% and operating profit of more than 18.2%. The domestic cloud services market is expected to continue to grow at double-digit annual rates over the medium term as AI solutions and other areas of application expand, and we at FISCO believe it is highly feasible for the Company to achieve its performance targets if it makes steady progress in hiring and training personnel.

Medium-term results plan

(¥mn)

	FY6/23		FY6/24		FY6/25		FY6/26	CAGR*
	Previous plan	Results	Previous plan	New plan	Previous plan	New plan	New plan	
Net sales	18,093	19,267	19,902	21,784	21,892	24,365	26,805	11.6%
Operating profit	1,456	1,456	1,763	1,763	2,189	2,189	2,407	18.2%
(profit margin)	8.1%	7.6%	8.9%	8.1%	10.0%	9.0%	9.0%	
Number of consolidated employees (people)	1,353	1,348	1,466	1,495	1,582	1,633	1,785	9.8%

* Annual rate of growth over the three years from FY6/24 through FY6/26
Source: Prepared by FISCO from the Company’s medium-term management plan materials

(2) Growth strategy by business segment

a) Cloud Integration Business

Underpinned by predictions of an ongoing shift to cloud-based IT systems and continued growth of the cloud services market, the Company seeks to respond to growth of existing businesses and expansion of business areas and accumulate recurring revenue through resale to achieve high growth and stability. The segment aims to increase net sales from ¥5,319mn in FY6/23 to more than ¥10,000mn in FY6/26, of which recurring-revenue sales are poised to increase from 31% of sales to the low 40% range. The segment seeks to generate approximately 50% of its incremental increase in sales over three years from resale income, which will further enhance consistency of earnings, but the profit margin will be lower.

To prompt growth of existing businesses, the Company will engage in initiatives that involve hiring and training engineers, enhancing development of proprietary services to heighten customer convenience and the Group's productivity, and seeking to differentiate itself from competing cloud integrators. Meanwhile, the Company will seek to expand its areas of business by pursuing aggressive investment undertaken with the aim of swiftly launching new cloud services from overseas in the Japanese market. The Celonis EMS (Execution Management System) process mining platform solutions have recently begun to gain momentum and are poised to achieve further growth going forward. There is also a possibility that the Company may encounter explosive growth in demand for the AI-related solutions mentioned previously in this report. We will closely monitor developments in that regard going forward.

Furthermore, the segment seeks to enhance its human resources through measures to recruit and train talent that serves as a source of its growth. This will involve 1) taking a functional approach to recruitment through hiring managers assigned to the Company's various offices instead of solely hiring through the head office, while also preventing mismatches between jobs and applicants; 2) enhancing development of engineers while maintaining and increasing competitiveness in part by actively promoting acquisition of vendor certifications related to cloud services in particular; and 3) working to increase pay levels and establish a pleasant work environment (reducing total working hours, increasing proportion of employees taking childcare leave and increasing the proportion of female employees) while keeping down the turnover rate.

b) System Integration Business

In the System Integration Business, the Company will work to steadily recruit and train engineers to expand, centered on its mainstay ERP-related services, and will increase sales by building close relationships with customer companies to expand existing customer projects and acquire recurring orders. In so doing, it aims to achieve annual sales growth in the single digits. In addition, the Company intends to strengthen project management from the perspectives of quality, duration, cost and risk control to increase service quality while reducing the risk of occurrence of unprofitable orders, and in this way, it will work to maintain and increase profitability.

c) Outsourcing Business

In the Outsourcing Business, the Company will target a different customer segment than major cloud vendors for its data center services, and aims for annual sales growth in the single digits by acquiring new customers and expanding usage fees from existing customers. Since 2022, with the continued depreciation of the yen, the increased burden of service usage charges for large-scale foreign-funded cloud services has entered the awareness of companies and some have begun to move toward building private clouds. The Company intends to accommodate this demand. It also plans to increase quality and secure profitability by gradually adding capacity at data centers in line with their operating status. Moreover, with regard to maintenance for SAP's ERP products, demand is expected to rise ahead of 2027, so the Company trains nearshore staff in the Kanazawa region of Ishikawa Prefecture and further strengthens its systems.

d) Product Business

In the Product Business, the Company will expand sales channels through distributors and others and strengthen advertising in seeking to acquire new customers. It will also work to increase the number of users by expanding user divisions within existing customers. With respect to specific products, the Company aims to steadily achieve sales growth by placing focus on promoting sales of the new Smart Rabbit offering, in addition to Tate Yakusha and SHIFTEE. The Company seeks to increase the segment's proportion of monthly usage fees and other forms of recurring-revenue sales to nearly 70% by FY6/26 from 57% in FY6/23 by decreasing the number of customization projects, thereby giving rise to a high-profit margin revenue structure where increased sales directly result in stable, higher profits. The segment's approach entails enhancing functionality continually to improve competitiveness against products of other companies.

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 through 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 and augment the system to earn profits from the Overseas Business independently.

(3) 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 is strengthening the following initiatives.

In the area of the environment, to realize a decarbonized society, the Company aims to set CO_2 emissions targets and implement further reduction measures, enhanced its disclosure system in line with the Task Force on Climate-Related Financial Disclosures (TCFD), and responded to the Carbon Disclosure Project (CDP) survey and worked 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, the Company runs Microsoft Base Kanazawa, a facility operating in front of Kanazawa Station and based on the concept of local IT urbanization in Hokuriku starting in Kanazawa. The facility is providing free DX education for industry-academia-government-private sector DX and also providing opportunities for communication pivoting on cloud systems that make possible the experience of the latest technology, and it is used to hold online seminars, as a business meeting space, and as a coworking space. There has been a total of 850 participants from 120 participating companies since establishment of the facility (including scheduled future participants), where use is steadily increasing.

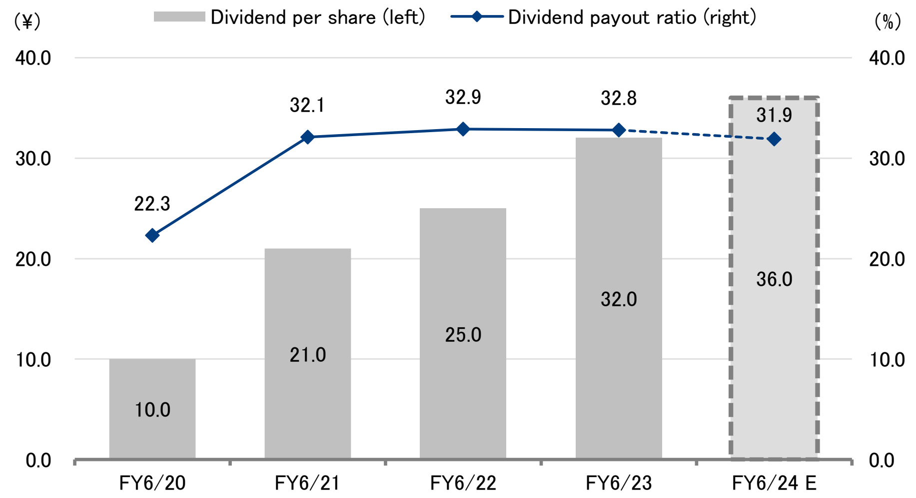
In regard to corporate governance, the Company actively establishes and engages in corporate governance practices. It has accordingly established a governance framework as necessary to ensure proper business conduct with its sights set on maximizing its corporate value, and duly recognizes that proper operation of its governance framework serves as a key responsibility of management.

Shareholder return policy

Sustained dividend increases with a target payout ratio of 30-35%

The Company regards the return of profits to shareholders as one of the important management issues. 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 FY6/24, the Company increased the amount by ¥4.0 YoY to ¥36.0, which marked the fifth 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.

Dividend per share and dividend payout ratio



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

FISCO

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