COMPANY RESEARCH AND ANALYSIS REPORT

System Support Holdings Inc.

4396

Tokyo Stock Exchange Prime Market

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Contents

Summary

Forecasts continued strong growth by leveraging high-level technological capabilities in multi-cloud support

System Support Holdings Inc. <4396> (hereafter, also "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. The Company transitioned to a holding company structure in January 2025 to establish a group management framework that enables agile and flexible decision-making. It is targeting further growth under this new structure.

1. Outline of results for 1H FY6/25

In 1H FY6/25 (July–December 2024), consolidated net sales increased 22.8% year on year (YoY) to ¥13,060mn and operating profit rose 37.4% to ¥1,214mn, both consecutive record-highs and above the Company's initial forecasts (net sales of ¥12,644mn, operating profit of ¥1,063mn). The mainstay Cloud Integration Business continued to drive earnings, with net sales growth of 39.7% YoY on the back of rising DX demand from corporate customers. This high rate of growth reflected efforts to strengthen systems for providing high-quality multi-cloud services, including support for the migration and usage of various cloud infrastructure services (AWS, Microsoft Azure, Google Cloud, etc.), as well as those related to ServiceNow*.

* "ServiceNow" is a cloud platform that standardizes and automates business processes and supports improved productivity by employees and organizations. It is provided by ServiceNow <NOW> of the US. Over the past few years, it has been 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 FY6/25

For the FY6/25 consolidated results, the Company upwardly revised its initial forecasts (net sales of ¥26,087mn, operating profit of ¥2,115mn) with net sales up 20.8% YoY to ¥26,603mn and operating profit up 31.7% to ¥2,200mn. Corporate demand for DX remains strong, with the operating environment still conducive for sales growth, depending on human resources. It forecasts 136 new graduates will join the Company in April 2025, slightly higher than its initial plan, and the pace of mid-career recruitment is also likely to be higher than expected, indicating steady progress with strengthening service delivery. 1H progress rates versus full-year forecasts were 49.1% for net sales and 55.2% for operating profit, slightly above averages for the last three years (48.1% and 51.2%, respectively)*1. Given the current order environment, we at FISCO believe there is potential for further upside. The two M&A*2 deals concluded in July 2024 are expected to lift net sales by around ¥1.0bn, but taking into account amortization of goodwill and other related expenses, the impact on operating profit is likely to be negligible.

*1 Total for FY6/22–FY6/24 interim periods divided by full-year total
*2 Communication Planning Corporation, a provider of ERP implementation support and extended reality (XR) solutions, made a subsidiary; SI, DX consulting, and cloud-related services businesses of MultiNet International Inc. acquired by Company's US subsidiary, STS Innovation, Inc.

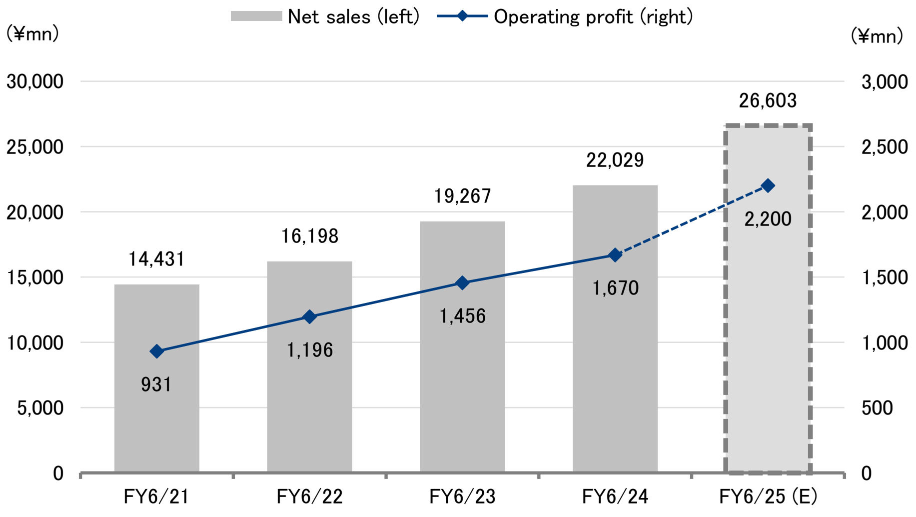
3. Progress of medium-term management plan

The Company's medium-term management plan (FY6/25–FY6/27) calls for net sales of ¥31,709mn and operating profit of ¥2,798mn in the final year. Performance has been solid so far in the plan's first year. The plan's three priority measures are—expand services that form the foundation of DX promotion for customers and society, promote the growth and success of diverse human resources, and strengthen sustainability management. The Company intends to continue stepping up the recruitment and training of engineers, while targeting expansion led by the Cloud Integration Business, which continues to grow at a rapid pace. It also appears to be using aggressive M&A as a way of efficiently reinforcing engineer resources. Progress in this area will be watched closely.

Key Points

- Double-digit net sales and profit growth in 1H FY6/25, beating initial forecasts
- Raises full-year FY6/25 forecasts, but still room for upside given favorable order environment
- Expects net sales and profits to continue rising at annualized double-digit pace, driven by Cloud Integration Business
- Plans to hike dividend for sixth straight fiscal year since listing based on a progressive dividend policy

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 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 for the construction industry, 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 Japan Co., Ltd., 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 US markets. 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, it has carried out two M&As. In July 2024, the Company's US subsidiary accepted the transfer of all businesses (systems integration, DX consulting, and cloud-related services) operated by Japanese-owned IT solutions provider MultiNet International with the aim of expanding its operations in North America. In the same month, the Company acquired all shares of software developer and IT solutions provider Communication Planning and made it into a subsidiary*. In January 2025, the Company transitioned to a holding company structure to establish a group management framework that enables agile and flexible decision-making.

* Acquisition of businesses from MultiNet International cost ¥250mn (plus ¥26mn in advisory fees and goodwill of ¥62mn, amortized on straight-line basis over 12 years); acquisition of shares in Communication Planning cost ¥600mn (plus ¥29mn in advisory fees and goodwill of ¥287mn, amortized on straight-line basis over 10 years).

History

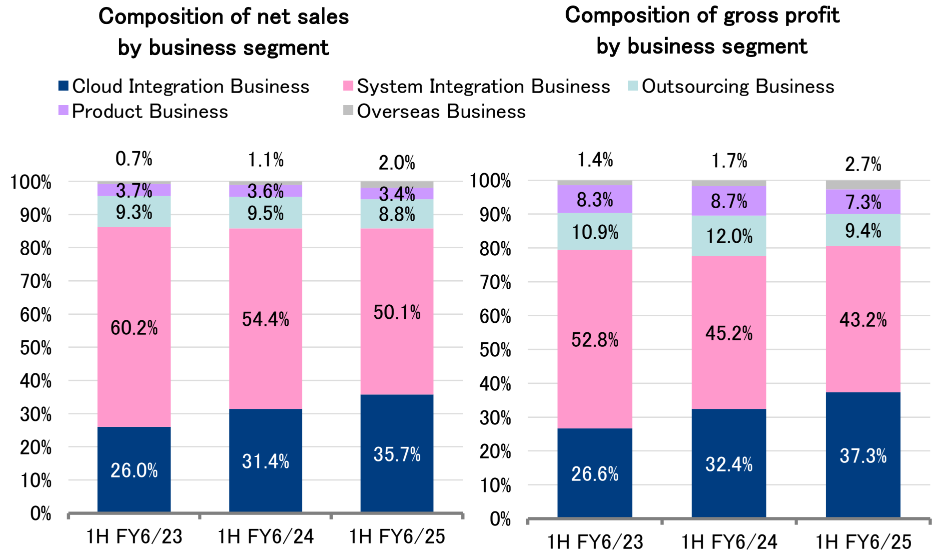
Date	Major event
January 1980	Founded in Kanazawa, Ishikawa Prefecture, providing data entry and system development services
November 2000	Financed and founded eNet Solutions Co., Ltd.
January 2004	Entered into an Oracle EBS Technical Partner contract with Oracle Corporation Japan <4716>
February 2005	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 a 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.
July 2024	STS Innovation, Inc. accepted the transfer of SI, DX consulting, and cloud-related services businesses from MultiNet International Inc. (US)
July 2024	Acquired all shares of Communication Planning Corporation and made it a subsidiary
January 2025	Changed company name to System Support Holdings Inc. and transferred all operations except Group management business to newly established subsidiary System Support Inc., creating a holding company structure

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 nine consolidated subsidiaries (as of December 31, 2024). 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 FY6/25, the System Integration Business accounted for more than half of all sales at 50.1%, followed by the Cloud Integration Business at 35.7%, the Outsourcing Business at 8.8%, the Product Business at 3.4%, and the Overseas Business at 2.0%. Over the last three fiscal years, sales have been increasing in the Cloud Integration Business amid expansion in the cloud infrastructure service market, but sales have been declining in the System Integration Business. These businesses together account for more than 80% of total net sales. A breakdown of gross profit by business segment shows almost the same trend, with the Cloud Integration Business accounting for a rising share of profits.



Source: Prepared by FISCO from the Company's financial results and 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. In 1H FY6/25, ServiceNow-related services accounted for the highest share of sales at 34.4%, followed by AWS at 32.1%, Google Cloud at 11.6%, and Microsoft Azure at 10.6%. License resales, which serve as a recurring-revenue business, accounted for 32.8% 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 AWS, Microsoft Azure, Google Cloud, and Oracle, leading to the acquisition of new projects. 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 FY6/25 was 42.0%, surpassing the overall business segment's margin of 29.2%).

Resales are mainly generated on a pay-as-you-go basis in line with data usage. The cloud service provider sends US dollar-denominated invoices to the Company, which in turn converts such amounts to yen, adding a certain margin, and then 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. Also, given that there is an average settlement period of about one to two months, rapid yen depreciation during that time will culminate 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 AI Platform on Microsoft Azure Specialization (High-level certification awarded to solution partners with advanced expertise and a strong track record)	• 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) • Obtained Google Cloud Premier Partner certification for the Sell and Service engagement models (January 2024) • Received Google Cloud Partner Top Engineer 2025 awards*4 **Oracle** • Received Oracle Database-related awards for 14 consecutive years*5 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 Four System Support employees received the award.
*5 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 FY6/25, IT system development accounted for a majority of the total at 55.4%, followed by ERP-related services at 30.0% and database-related services at 14.6%.

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. Net sales generated by Communication Planning, which became a subsidiary in July 2024, are included in this segment.

(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 77.3% of net sales. The remaining 22.7% is taken up by data analysis and entry and system operation and maintenance on a nearshore basis.

The Company has around 1,050 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 31.8%, 29.8%, 13.1%, and 9.4% of sales in 1H FY6/25. While the Company does receive orders for custom development projects from time to time and records sales associated with hardware when installed, around 54% of total 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
Tate Yakusha	System Support Inc.	A construction work information management system for the construction industry. Initial cost starts at ¥500,000. The monthly charge starts at ¥50,000 per 5 licenses (separate charges apply for customization).
MOS	ACROSS Solutions, Inc.	A mobile order reception system. Prices vary depending on options and customization.
SHIFTEE	System Support Inc.	A cloud-based shift management system. Initial basic fee is ¥50,000. The monthly charge for the light version is ¥250 per user (separate charges apply for customization).
Shugyo Yakusha	System Support Inc.	An attendance/work management system. The monthly charge for the cloud version is ¥250 per user (separate charges apply for the on-premise version).

Source: Prepared by FISCO from the Company's website

(5) Overseas Business

The Overseas Business mainly 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. A system integration business and other operations acquired from MultiNet International in July 2024 have also been added to this business segment. In the US, the Company's operations were previously focused on the West Coast area, but with this acquisition, it has added business offices in New York and Houston, extending its US sales reach from the West Coast into the East Coast, Midwest, and South.

(6) Group companies and the number of employees

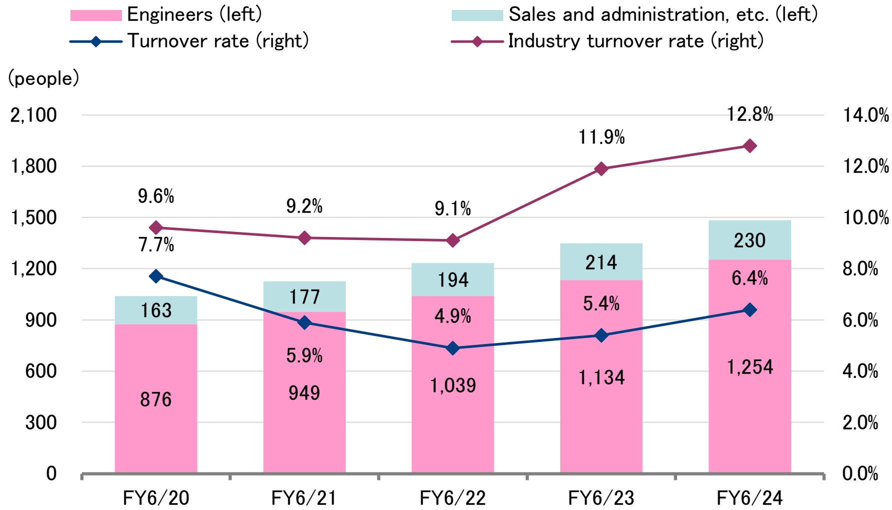
The Company's subsidiaries specialize in different functions and business sectors with the aim of proactively and swiftly providing new solutions to customers on a continual basis. The number of employees was 1,484 on a consolidated basis at the end of FY6/24, an increase of 136 people from the end of FY6/23. Engineers account for 85% of employees. By region, approximately 50% of employees are in the Tokyo metropolitan area, while personnel are being utilized in a balanced manner over other regions, including the Hokuriku, Kansai, and Tokai regions, to respond to growing demand for cloud infrastructure-related services in each area. The turnover rate grew by 1.0 percentage points (pp) YoY to 6.4%. This can be attributable to the movement of IT personnel becoming more fluid on an industry-wide level as the COVID-19 pandemic subsided and as the Company's turnover rate is still low compared to the industry average (12.8%), there is thought to be no cause for concern. This low turnover rate is seemingly attributable to active efforts by the Company not only to enhance salaries and benefits, but also to improve workplace environments and support career advancement, including by fully covering the costs incurred by engineers when obtaining certifications to develop their skills and by establishing telework environments.

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 for the construction industry, 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.	-	-	-	Development and sale of MOS mobile order receipt and placement system	-
STS DIGITAL, Inc.	-	Digital marketing services	-	-	-
Communication Planning Corporation	-	Technical support for ERP package implementation and use, map and location solutions	-	-	-
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 net sales and profit growth in 1H FY6/25, beating initial forecasts

1. Outline of results for 1H FY6/25

In 1H FY6/25 consolidated results, net sales increased 22.8% YoY to ¥13,060mn, operating profit rose 37.4% to ¥1,214mn, ordinary profit was up 36.5% to ¥1,226mn, and profit attributable to owners of parent was up 28.9% to ¥792mn. Both sales and profit increased by double digits and exceeded the initial forecasts.

Consolidated results for 1H FY6/25

(¥mn)

	1H FY6/24		1H FY6/25				
	Results	% of net sales	Company forecast	Results	% of net sales	YoY	Achievement rate
Net sales	10,635	-	12,644	13,060	-	22.8%	3.3%
Cost of sales	7,734	72.7%	-	9,425	72.2%	21.9%	-
Gross profit	2,900	27.3%	-	3,635	27.8%	25.3%	-
SG&A expenses	2,016	19.0%	-	2,420	18.5%	20.0%	-
Operating profit	883	8.3%	1,063	1,214	9.3%	37.4%	14.3%
Ordinary profit	899	8.5%	1,064	1,226	9.4%	36.5%	15.3%
Profit attributable to owners of parent	614	5.8%	718	792	6.1%	28.9%	10.4%

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

Despite ongoing uncertainty around the economic outlook due to rising prices and other factors, the Company's operating environment remained upbeat, with strong IT investment demand from corporates seeking to expand their business, strengthen competitiveness, and improve operational efficiency, as well as diversify into areas requiring new technologies such as generative AI, IoT, and cloud services. Against this backdrop, the Cloud Integration Business continued to drive earnings.

On the profit front, gross profit increased 25.3% YoY to ¥3,635mn amid a scenario where the cost-of-sales ratio declined from 72.7% in the same period of the previous fiscal year to 72.2% due to changes in the sales mix and effects of increased sales. SG&A expenses rose 20.0% YoY, mainly reflecting increased personnel costs and investment in growth*, but the SG&A ratio declined 0.5pp due to higher sales. As a result, the operating margin rose from 8.3% in 1H FY6/24 to 9.3%, with all profit margins reaching a record high.

* Investment in growth (costs related to recruitment, training, R&D, and M&As) rose ¥60mn YoY to ¥259mn.

Net sales beat the Company's forecast due to strong earnings in the Cloud Integration and System Integration businesses. Profits were lifted by an increase in gross profit amid the higher net sales, while about ¥50mn in budgeted advertising and other expenses were pushed back to 2H. The two M&A deals completed in July 2024 boosted net sales by more than ¥0.5bn, but taking into account goodwill amortization (¥16mn) and M&A-related expenses, there was only a negligible impact on operating profit.

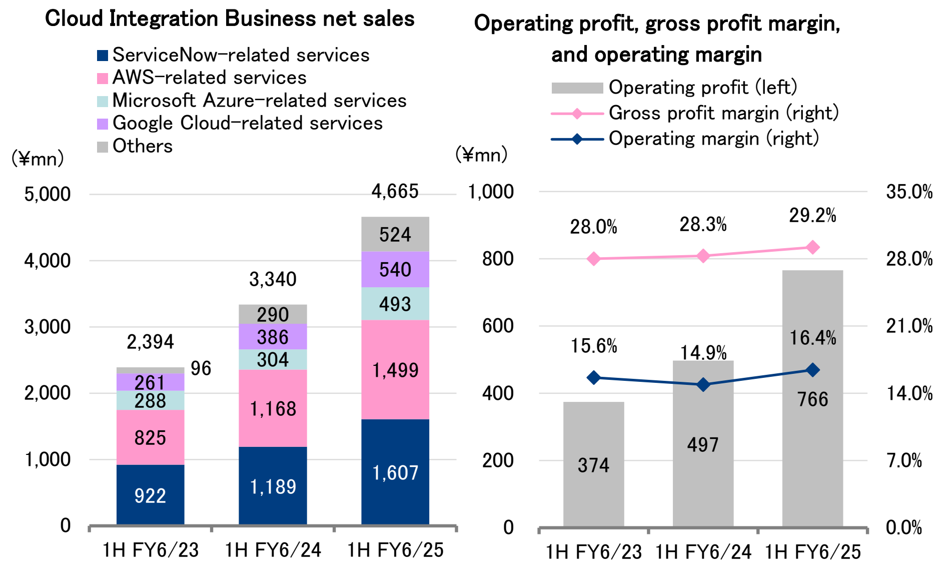
Increases in sales in all business segments, especially the Cloud Integration Business

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 39.7% from the same period of the previous fiscal year to ¥4,665mn, and operating profit up 54.2% to ¥766mn. The business is seeing continued strong IT investment demand from customers for ServiceNow and for support for the migration and utilization of major cloud platforms, and it captured this demand by actively hiring and training personnel and securing partners to reinforce its service delivery system. The gross profit margin also rose from 28.3% in 1H FY6/24 to 29.2%, reflecting higher sales and an improvement in the sales mix, and gross profit increased 44.1% YoY to ¥1,364mn.

Results trends



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

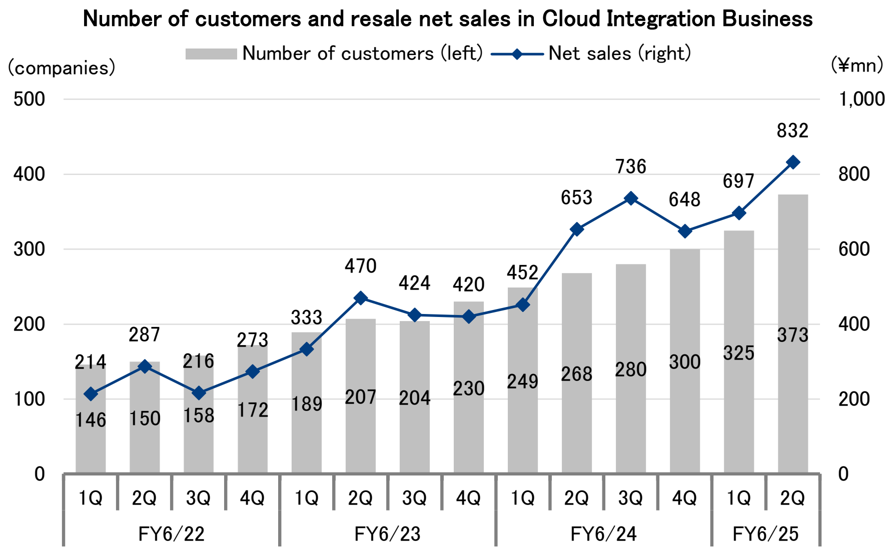
In mainstay ServiceNow-related services, net sales increased 35.1% YoY to ¥1,607mn and the gross profit margin rose 1.9pp to 42.0%, partly due to a decline in the share of net sales generated by license sales. The Company has a built strong service delivery team for ServiceNow, ranked third in Japan* for the number of development certifications obtained, as well as an impressive implementation track record and high levels of customer satisfaction. This has led to ongoing referrals from ServiceNow and an increase in additional orders from existing customers, supporting a steep rise in net sales. While the number of competitors handling ServiceNow products has increased in the last couple of years, few companies have established a system that can handle the wide range of products and solutions offered by ServiceNow, one of the Company's strengths.

* The top three companies for number of development certifications obtained as of November 2024 were Fujitsu <6702> with 1,127, Accenture Japan Ltd with 780, and the Company with 529. The total number of development certifications obtained is 9,033.

Net sales of other cloud infrastructure migration and usage support services also continued to grow strongly, rising 36.2% YoY to ¥2,532mn. Sales grew in every area, with sales increasing 28.3% YoY to ¥1,499mn for AWS-related services, 39.9% to ¥540mn for Google Cloud-related services, 62.2% to ¥493mn for Microsoft Azure-related services, and 80.7% to ¥524mn for other services. In recent years, companies have been increasingly using multiple cloud services to reduce risk involved in building IT systems, and the Company has succeeded in capturing this demand by building a service delivery system that can handle multi-cloud services. It also has many engineers who work on layers other than infrastructure (application development, ERP, database construction, etc.), allowing it to consistently secure orders for upgrades of entire corporate IT systems, another of the Company's strengths.

Sales growth was high for other services, reflecting significant growth for Oracle Cloud Infrastructure-related services, as well steady growth for Celonis EMS solutions* and other services. Post-migration resale net sales (primarily for AWS) increased 38.5% YoY to ¥1,529mn in line with an increase in customer numbers (increase of 105 companies YoY to 375 companies in the Cloud Integration Business) providing a stable earnings base that contributed to higher sales and profits.

* 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 ServiceNow opt to implement the Celonis platform. In February 2024, it obtained Gold Partner status.

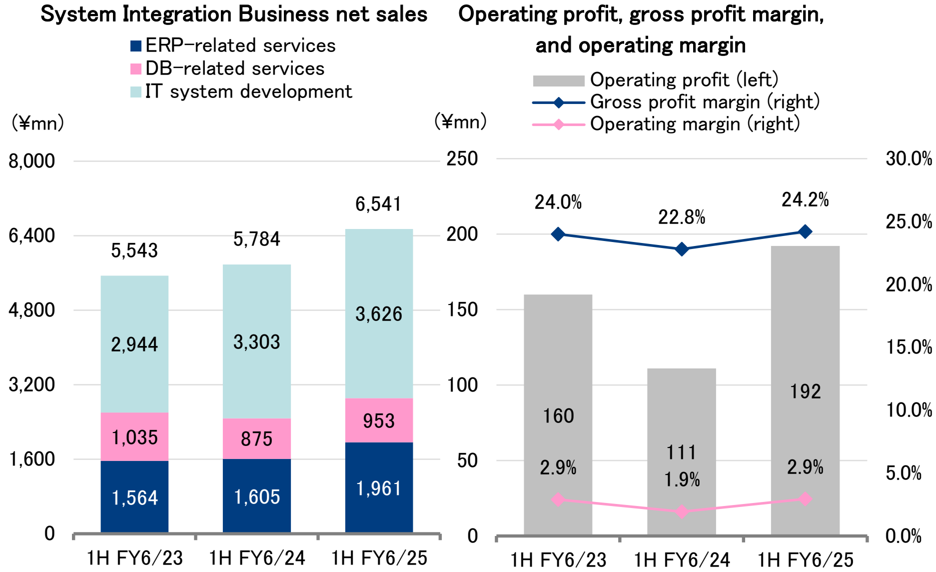


Source: Prepared by FISCO from the Company's supplemental results briefing materials

(2) System Integration Business

Net sales of the System Integration Business increased 13.1% from the same period of the previous fiscal year to ¥6,541mn and operating profit decreased 72.5% to ¥192mn. While the operating margin looks low at 2.9%, underlying profitability was slightly higher, because SG&A expenses such as head office expenses and other shared Group expenses were allocated to each segment in proportion to the cost incurred. Gross profit increased 19.8% YoY to ¥1,580mn and the gross profit margin rose 1.4pp to 24.2%. The inclusion of Communication Planning as a new subsidiary had a large impact, but net sales and profits increased on an existing business basis as well. Given that in-house engineers are being transferred to the Cloud Integration Business, which is seeing strong demand, this was a solid performance.

Results trends



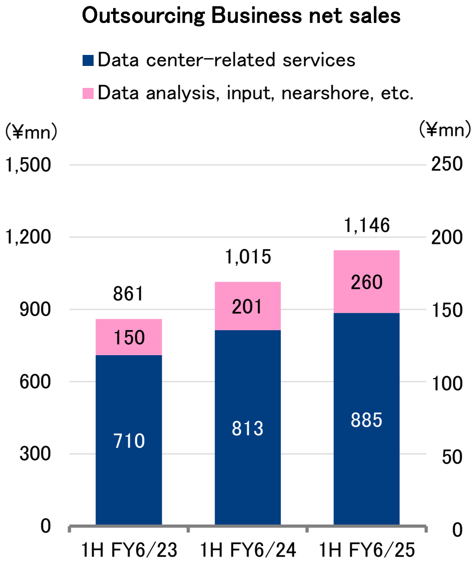
Source: Prepared by FISCO from the Company's supplemental results briefing materials

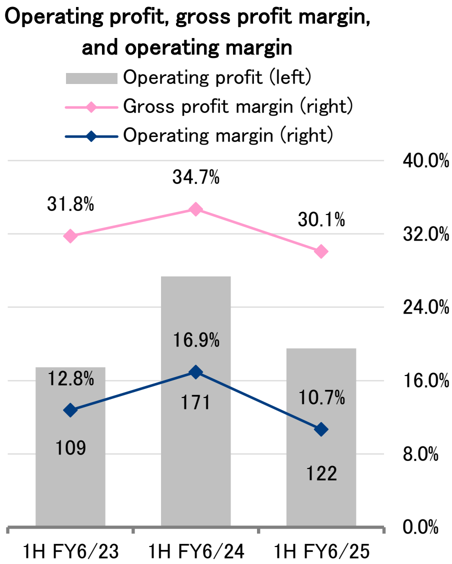
Looking at the breakdown of net sales, IT system development increased 9.8% YoY to ¥3,626mn, supported by continued active IT investment by companies, database-related services rose 8.9% to ¥953mn, and ERP-related services increased 22.2% to ¥1,961mn due to firm demand, led by SAP's ERP packages, and a boost from M&A. In 2Q FY6/25, Communication Planning booked a large, profitable license sale, which lifted net sales and profitability.

(3) Outsourcing Business

The Outsourcing Business reported 1H net sales of ¥1,146mn, up 12.9% YoY, and operating profit of ¥122mn, down 28.8%. Although net sales from data center-related services and data analysis and nearshore-related services grew steadily, profitability was impacted by an increase in system construction work (one-time outsourcing costs), which occurs at the start of data center use to acquire new customers, and by an increase in the segment's allocation of SG&A expenses due to a rise in the cost of sales. Gross profit declined 1.9% YoY to ¥345mn and the gross profit margin fell 4.6pp to 30.1%.

Results trends





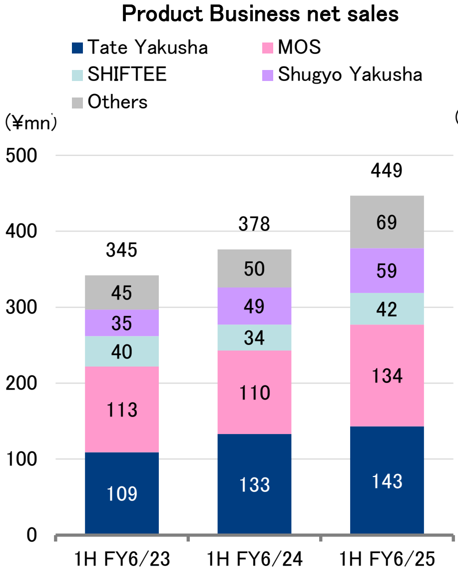
Source: Prepared by FISCO from the Company's supplemental results briefing materials

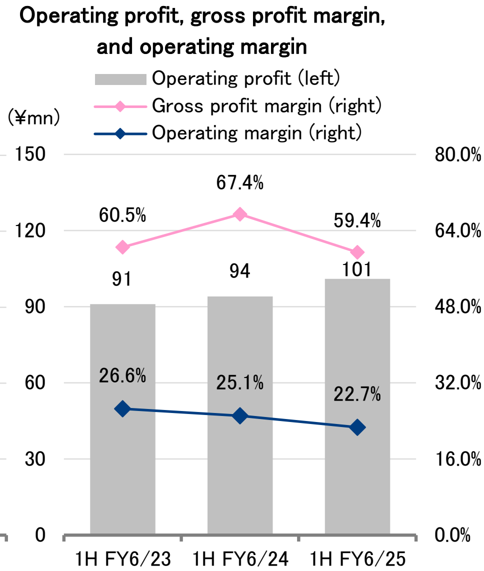
Looking at the breakdown of net sales, sales from data center-related services increased 8.9% YoY to ¥885mn, and sales from nearshore ERP maintenance services and data analysis and input services rose 29.4% to ¥260mn, maintaining an upward sales trend for both categories. In data center services, the volume of work conducted by companies via private cloud services is expanding, leading to an increase in monthly usage fees per company and helping to lift sales. Recurring-revenue sales alone continued to rise steadily, up 11.0% YoY to ¥761mn. Meanwhile, growth in sales from ERP maintenance services and from data analysis and input services reflected strong maintenance needs, mainly for SAP ERP products, and progress with strengthening systems in Kanazawa.

(4) Product Business

The Product Business reported 1H net sales of ¥449mn, up 18.7% YoY, and operating profit of ¥101mn, up 7.3%. Sales growth was supported by firm growth in customer numbers for core products, leading to a steady rise of 9.5% YoY in license fees and other recurring-revenue sales to ¥244mn, and by the delivery of a large Tate Yakusha customization project. Gross profit rose 4.6% YoY to ¥266mn and the gross profit margin declined 8.0pp to 59.4%, with the large customization project weighing on the margin.

Results trends





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

Looking at the breakdown of net sales, sales from Tate Yakusha grew 7.5% YoY to ¥143mn, MOS rose 21.8% to ¥134mn, Shugyo Yakusha increased 20.4% to ¥59mn, SHIFTEE rose 23.5% to ¥42mn, and other products increased 38.0% to ¥69mn. In each product category, the Company participated in trade shows and stepped up initiatives in distributor-based strategy, leading to growth in the number of customers.

(5) Overseas Business

In the Overseas Business, net sales increased 122.3% from the same period of the previous fiscal year to ¥257mn, while operating profit increased 69.5% to ¥52mn. The main reason for the growth in sales and profit was the addition of a system integration business, which was acquired in July 2024. Due to a change in the sales mix, the operating margin declined from 26.9% in 1H FY6/24 to 20.5%, but the Company expects the business to remain firm as it captures demand from Japanese companies based overseas. In addition, many of MultiNet International's existing customers are local subsidiaries of large Japanese companies. Leveraging these connections, it also expects to win orders in the Cloud Integration Business in Japan.

Using borrowings to fund M&A, but remains financially sound despite slight drop in equity ratio

3. Financial condition and business indicators

As of the end of 1H FY6/25, total assets were ¥12,284mn, up ¥2,355mn from the end of the previous fiscal year. In current assets, cash and deposits increased ¥411mn, and notes and accounts receivable - trade, and contract assets rose ¥1,118mn. In non-current assets, goodwill increased ¥317mn and investments and other assets rose ¥386mn.

Total liabilities increased ¥2,061mn from the end of the previous fiscal year to ¥6,934mn. This mainly reflected increases of ¥1,761mn for interest-bearing debt and ¥416mn for long-term accounts payable - other. Short-term borrowings typically increase at the end of the interim period to secure working capital, but in 1H FY6/25, due to two M&A deals at the beginning of the period*, the Company raised ¥1,128mn in long-term borrowings, as well as ¥700mn in short-term borrowings. Net assets increased ¥294mn to ¥5,350mn. This mainly reflected profit attributable to owners of parent of ¥792mn, offsetting ¥228mn in dividends paid and ¥268mn for the purchase of treasury shares.

* The Company spent roughly ¥0.9bn on the two M&A deals, including advisory fees and other costs.

Looking at management indicators, the equity ratio declined from 50.9% to 43.6% and the interest-bearing debt ratio rose from 18.0% to 50.0%. Net cash (cash and deposits minus interest-bearing debt) also declined ¥1,349mn YoY to ¥1,991mn due to M&A deals, with all three indicators showing a modest deterioration in the Company's financial position. However, with net cash still positive, we at FISCO believe the Company remains financially sound.

Consolidated balance sheet

(¥mn)

	End-FY6/22	End-FY6/23	End-FY6/24	End-1H FY6/25	Change
Current assets	6,303	7,139	8,165	9,748	1,583
Cash and deposits	3,254	3,568	4,253	4,664	411
Non-current assets	1,511	1,730	1,763	2,535	772
Total assets	7,815	8,870	9,929	12,284	2,355
Total liabilities	4,393	4,746	4,873	6,934	2,061
Interest-bearing debt	1,149	1,009	911	2,672	1,761
Total net assets	3,421	4,124	5,055	5,350	294
Security					
Equity ratio	43.8%	46.5%	50.9%	43.6%	-7.3pp
Interest-bearing debt ratio	33.6%	24.5%	18.0%	50.0%	32.0pp
Net cash	2,105	2,559	3,341	1,991	-1,349

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

Outlook

Raises full-year FY6/25 forecasts, but still room for upside given favorable order environment

1. Outlook for FY6/25

The Company has made modest upward revisions to its net sales and profit forecasts for FY6/25. It now forecasts a consecutive fiscal year of record-high earnings—consolidated net sales of ¥26,603mn, up 20.8% YoY, operating profit of ¥2,200mn, up 31.7%, ordinary profit of ¥2,195mn, up 25.9%, and profit attributable to owners of parent of ¥1,459mn, up 19.2%. The upward revisions reflect upside to 1H forecasts and expectations for continued solid earnings in each segment in 2H. In particular, the Cloud Integration Business has been fielding a high level of inquiries and has been unable to keep up with demand due to lack of supply (human resources).

1H progress rates versus full-year forecasts were 49.1% for net sales and 55.2% for operating profit, above averages for the last three years (48.1% and 51.2%, respectively). Although education and training costs and personnel expenses are expected to increase in 4Q due to the planned recruitment of 136 new graduates in April 2025 (up 30 YoY), or roughly 30% more than in the previous fiscal year, the Company's forecasts look cautious and we at FISCO think earnings could still top its revised figures.

Outlook for FY6/25 consolidated results

(¥mn)

	FY6/24		FY6/25				
	Results	% of net sales	Initial plan	Revised plan*	% of net sales	YoY	Revised amount
Net sales	22,029	-	26,087	26,603	-	20.8%	515
Operating profit	1,670	7.6%	2,115	2,200	8.3%	31.7%	85
Ordinary profit	1,743	7.9%	2,106	2,195	8.3%	25.9%	89
Profit attributable to owners of parent	1,224	5.6%	1,444	1,459	5.5%	19.2%	14
Net profit per share (¥)	118.24		139.38	141.57			

* Released January 28, 2025
Source: Prepared by FISCO from the Company's financial results

At the start of the fiscal year, the Company's FY6/25 recruitment plan called for the hiring of 133 new graduates (up 27 from the previous fiscal year) and 122 mid-career employees (up 2). However, it now expects to exceed its target for new graduates by several people, and with 70 mid-career hires in 1H (up 20 YoY), it could recruit 140 for the full year. In addition, the Company has absorbed around 40 employees (mostly engineers) from Communication Planning, which joined the Group in July 2024, and a US subsidiary has gained about 10 new people following a business transfer. This means that the number of employees at the end of the fiscal year is forecast to exceed 1,700, up from 1,484 from the end of FY6/24. Competition for human resources in the IT industry is fierce, but the Company is striving to recruit exceptional talent by using an agency to attract not only mid-career personnel, but also new graduates. One of the reasons the Company's recruitment has been relatively smooth within a competitive industry is that it is not only improving salaries and benefits and enhancing educational systems that support skills development, it is also engaged in ongoing efforts to improve work environments by actively practicing health and productivity management. The Cloud Integration Business in particular continues to struggle to keep up with demand due to lack of capacity, so the smooth progress with recruitment is a positive sign.

Number of personnel hired (consolidated)

	FY6/22	FY6/23	FY6/24	FY6/25 plan
New graduate recruitment	70	85	106	136 (Number of formal job offers)
Mid-career recruitment	83	100	120	122 (70 in 1H)
Total number of personnel hired	153	185	226	258
Turnover rate	4.9%	5.4%	6.4%	-
Number of employees at end of period	1,233	1,348	1,484	1,722

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

In terms of topics since the start of 2H, the Company announced that its Product Business launched an automatic ordering system for amenities (guest room consumables) for hotels in February 2025, based on its Smart Rabbit* automatic ordering system for food ingredients for restaurants, which was released in July 2023. With the hotel industry facing a chronic shortage of staff, hotels are seeking to improve the efficiency of ordering amenities and managing inventory. Developed at the request of Hotel Keihan Co., Ltd., the Company now plans to roll out the system more widely by actively exhibiting at trade shows to increase awareness and promote sales. Developments will be watched closely, as the system could also be adopted for hotel buffet applications if it gains traction for hotel amenities.

* Automates work carried out by the person in charge of ordering ingredients at restaurants (determines order amounts by predicting volume of food ingredients restaurant will use based on sales forecasts and inventory at end of previous month), and can be linked with the restaurant's existing order receipt and placement system. Implementing Smart Rabbit is expected to not only streamline the order process, but also reduce food waste from excess inventory and reduce lost sales opportunities from inventory shortages.

Expects net sales and profits to continue rising at annualized double-digit pace, driven by Cloud Integration Business

2. Medium-term management plan

(1) Outline of medium-term management plan

In August 2024, the Company announced its three-year medium-term management plan rolling plan, starting from FY6/25. Under the theme "Growth and creation of further innovation," the plan has three priority measures—expand services that form the foundation of DX promotion for customers and society, promote the growth and success of diverse human resources, and strengthen sustainability management—and targets annualized double-digit growth in net sales and profits. Its targets for FY6/27 are net sales of ¥31,709mn, operating profit of ¥2,798mn, and an operating margin of 8.8%. That equates to three-year annualized growth rates of 12.9% for net sales and 18.8% for operating profit.

Medium-term results plan

(¥mn)

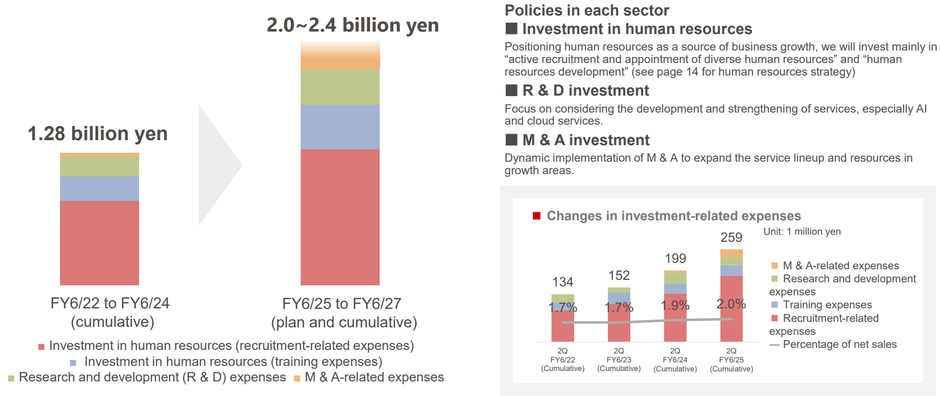
	FY6/24 results	FY6/25		FY6/26 target	FY6/27 target	CAGR*
		Initial plan	Revised plan			
Net sales	22,029	26,087	26,603	28,737	31,709	12.9%
Operating profit	1,670	2,115	2,200	2,432	2,798	18.8%
Operating margin	7.6%	8.1%	8.3%	8.5%	8.8%	
Number of consolidated employees	1,484	1,722	-	1,884	2,051	11.4%

* Annual rate of growth from FY6/25 to FY6/27
Source: Prepared by FISCO from the Company's medium-term management plan materials

With the domestic market for cloud infrastructure services expected to continue growing at an annualized rate in the high 10% range in the medium term as AI solutions and other areas of application expand, we at FISCO believe these targets are readily achievable if the Company makes steady progress with hiring and training personnel. Also, under its M&A strategy, its intention is to pursue around one deal per year. Aiming to use these deals to increase engineer headcount, it will primarily target companies with sales of around ¥1.0bn. The cost of M&A deals in the IT sector is high, so it remains to be seen whether its strategy will proceed smoothly. However, developments will be watched closely, as any successful deals could accelerate growth.

Regarding costs during the plan, the Company intends to invest heavily in human resources (recruitment and training costs), R&D, and M&A, budgeting a combined ¥2.0–2.4bn (¥0.67–0.8bn annualized) over the plan's three years. For the most recent three years (FY6/22–FY6/24), it invested ¥1.28bn, of which ¥0.535bn was spent in FY6/24. In terms of measures to recruit and train engineers, the Company is working to increase and enhance human resources by 1) taking a functional approach to recruitment by assigning hiring managers to each of its various offices instead of solely hiring through the head office, while also preventing mismatches between jobs and applicants; 2) reskilling engineers working in the System Integration Business by actively promoting acquisition of vendor certifications related to cloud services; and 3) working to increase pay levels and establish a comfortable work environment (increasing proportion of employees taking childcare leave and proportion of female employees) to limit the turnover rate.

Growth investment policy



Source: Reprinted from the Company's financial results briefing materials

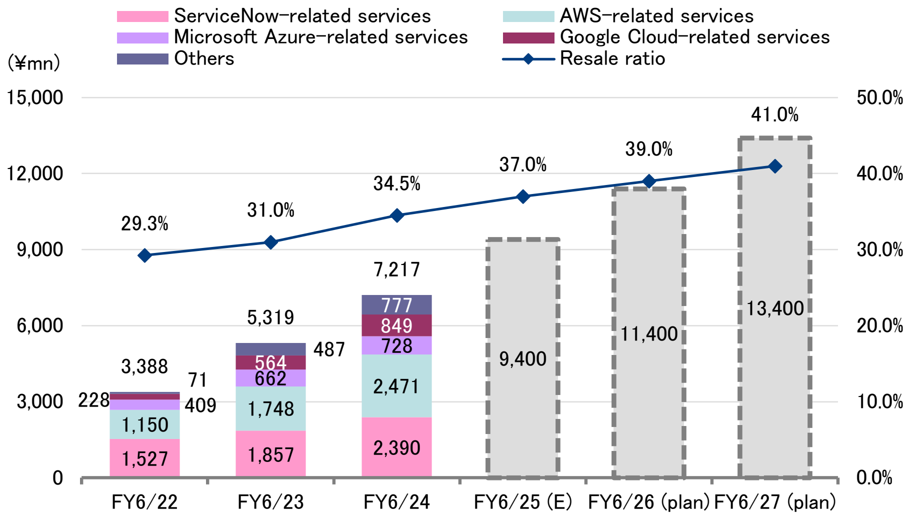
(2) Growth strategy by business segment

a) Cloud Integration Business

In the Cloud Integration Business, the Company's strategy is to target high growth by expanding its service areas* and growing existing businesses, while at the same time ensuring a solid earnings base by accumulating recurring revenue through license resales. The Company appears to be targeting a three-year annualized growth rate in the low 20% range and aim to nearly double sales compared with FY6/24. It also plans to lift the resale ratio from 35% in FY6/24 to over 40%.

* Investing in AI-related services and promising service areas overseas to rapidly develop them in Japan in order to cultivate new markets. In addition to hiring and training engineers, the Company believes developing proprietary services to increase customer convenience will be key to differentiating itself from competing cloud integrators.

Cloud Integration Business net sales



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

b) System Integration Business

In the System Integration Business, the Company aims to secure orders while steadily hiring and training engineers, particularly in its mainstay ERP, database, and RPA-related services. It will also build close relationships with customer companies to expand projects with existing customers and win recurring orders, as well as offer various services such as application development to customers in other business segments, including the Cloud Integration Business, to secure orders. It appears to be targeting single-digit annualized sales growth. On the profit front, it will work to maintain and increase profitability by continuing to strengthen project management from the perspectives of quality, duration, cost and risk control to increase service quality while reducing the risk of unprofitable projects.

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 it will work to acquire new customers and expand usage fees from existing customers by using proprietary services such as AI-related services as a hook. Its target is annualized sales growth of close to 10%. Also, in regard to ERP-related nearshore services, demand for maintenance for SAP's ERP products is expected to grow in the period up to 2027, so it will increase sales by providing training for the required maintenance and strengthening systems in the Kanazawa region of Ishikawa Prefecture. It also plans to both increase quality and secure profitability by adding capacity at data centers in line with their operating status, as it still has scope to add capacity at its data centers.

d) Product Business

In the Product Business, the Company appears to be targeting annualized sales growth of nearly 10% and aims to raise the proportion of recurring-revenue sales from 58% in FY6/24 to around 60–65% in FY6/27 by implementing three priority initiatives—enhance and maintain stable, high profit margins, expand the customer base, and improve functionality.

To improve and maintain stable, high profit margins, it plans to grow sales of non-customized products and increase the proportion of monthly usage fees and other forms of recurring-revenue sales. To expand the customer base, it will continue to grow sales channels through distributors and others, and strengthen advertising using trade shows and other means. It will also work to increase the number of users (number of IDs) by expanding user divisions at existing customers. In terms of improving functionality, it will reduce lead times to introduction and continue to add functionality to improve competitiveness against products supplied by other companies.

e) Overseas Business

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

(3) Strengthening sustainability management

Through sustainability 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, it is practicing health and productivity management and advancing diversity, inclusion, and equity initiatives to empower its diverse workforce. It is also operating Microsoft Base Kanazawa, a facility operating in front of Kanazawa Station under the concept of “local IT urbanization in Hokuriku starting in Kanazawa,” with the goal of expanding local business and stimulating the regional economy by training DX personnel. The facility is a cloud-based communication space that provides free DX education and hands-on experience with the latest technologies, serving as a venue for online seminars and business meetings, as well as a co-working space.

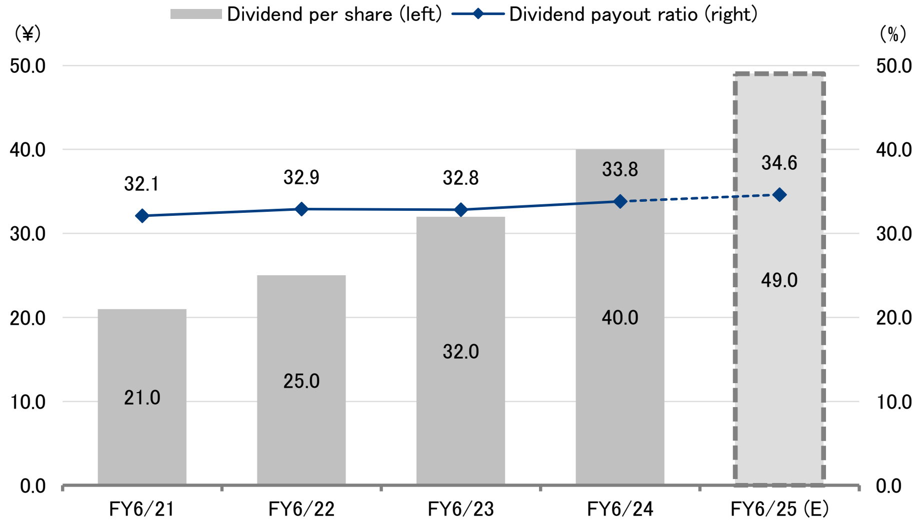
In regard to corporate governance, the Company has established the governance framework necessary to ensure proper business conduct with its sights set on maximizing its corporate value, and duly recognizes that proper operation of its governance framework serves as a key responsibility of management. It aims to enhance the quality of governance and respond to revisions to the Corporate Governance Code.

Shareholder return policy

Plans to hike dividend for sixth straight fiscal year since listing based on a progressive dividend policy

The Company regards the return of profits to shareholders as one of its management priorities. Its basic policy is to ensure adequate internal reserves for future business expansion and strengthening management structures, while paying stable dividends and raising the level of dividends in line with business performance and profit levels, based on a new policy of paying progressive dividends from FY6/25. This means that, in principle, the Company aims to maintain or increase dividends and not reduce them. Under the new policy, it had forecast a dividend of ¥48.0 per share for FY6/25, up ¥8.0 from the previous fiscal year, but with 1H results beating forecasts, it raised the dividend forecast by ¥1.0 to ¥49.0 per share. As such, it remains on course for the sixth consecutive fiscal year of dividend hikes since listing. Further increases are likely if earnings continue to expand. Although the Company has not disclosed a dividend payout ratio target, it has been aiming for 30–35% and this is expected to remain unchanged for now.

Dividend per share and dividend payout ratio



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

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