COMPANY RESEARCH AND ANALYSIS REPORT

System Support Inc.

4396

Tokyo Stock Exchange Prime Market

11-Oct.-2024

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Contents

Summary

Double-digit YoY growth and new records for both net sales and operating profit in FY6/24. Forecast for continuing double-digit growth driven by the market growth in cloud infrastructure-related services

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. In January 2025, the Company will pursue further growth by transitioning to a holding company structure with the aim of building a group management structure that facilitates agile and flexible decision making.

1. Outline of results for FY6/24

In the FY6/24 results, net sales increased 14.3% YoY (year-on-year) to ¥22,029mn and operating profit rose 14.7% to ¥1,670mn. This represents double-digit growth and consecutive record high results for both indicators. The main driver of these results was the mainstay Cloud Integration Business, which continued to record high levels of growth with net sales increasing by 35.7%. Other factors included smooth progress on strengthening human resources, a 28.7% increase in net sales of highly profitable ServiceNow*-related services, and a considerable 39.4% increase in migration and usage services for other cloud infrastructure platforms (AWS, Microsoft Azure, Google Cloud, etc.), primarily due to growth in incomes associated with AI-related solutions and resales. Additionally, the Company achieved double-digit sales growth and strong performances 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 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

The Company's forecasts for FY6/25 are that net sales will increase 18.4% YoY to ¥26,087mn and operating profit will increase 26.6% to ¥2,115mn. The Cloud Integration Business will continue to drive results as the current boom in demand is expected to continue. In July 2024, the Company carried out two M&As and these acquisitions are expected to contribute about ¥1.0bn in net sales. One of these, Communication Planning Corporation, is engaged in HR consulting, map and locational informational solutions, and extended reality (XR) solutions and it has been made into a subsidiary to create synergies with and enhance the services of the Company's existing businesses. M&A remains one of the Company's growth strategies and it is actively considering potential acquisitions. It is also focusing on the recruitment and training of human resources as a source of growth, and it plans to increase its number of employees by 16% YoY, which includes additions from M&As.

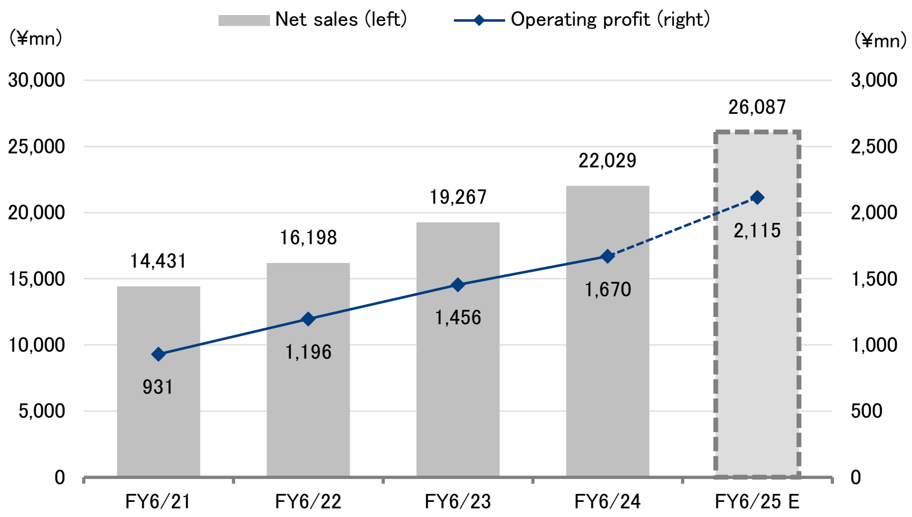
3. Medium-term management plan and dividend policy

The Company has released a new three-year medium term management plan (FY6/25-FY6/27). It has set targets for the final year of the plan of ¥31,709mn for net sales and ¥2,798mn for operating profit, amounting to three-year average annual growth rates of 12.9% for net sales and 18.8% for operating profit. The priority measures remain the expansion of services that form the foundation of DX promotion for customers and society, promotion of the growth and success of diverse human resources, and strengthening of sustainability management. In terms of business segments, the Cloud Integration Business is poised to achieve sales growth at an annual rate of 20-29%, while smooth growth is also anticipated for the Outsourcing Business, Product Business, and Overseas Business. Regarding dividend policy, it has decided to introduce progressive dividends (in principle, the Company maintains or increases dividends and does not reduce them) from FY6/25. It is thought to still be targeting a payout ratio at the 30-35% level and for FY6/25, it plans to increase the per-share dividend for a sixth consecutive year to ¥48.0 (payout ratio of 34.4%), an increase of ¥8.0 from the previous fiscal year.

Key Points

- Achieved double-digit increases in sales and profits in FY6/24 as high growth continued in the Cloud Integration Business
- Double-digit increases in sales and profits to continue in FY6/25 as orders environment remains favorable
- Transitioning to a holding company structure in January 2025 with the aim of achieving high annual growth rates of 12.9% for sales and 18.8% for profits over the next three years
- Decided to introduce progressive dividends into the dividend policy and plans consecutive dividend increases

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, 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 Inc. 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 Corporation and made it into a subsidiary*.

* The cost of acquiring MultiNet International's businesses was ¥250mn (not including ¥24mn in advisory fees) and the cost of acquiring shares of Communication Planning Corporation was ¥600mn (not including ¥29mn in advisory fees).

History

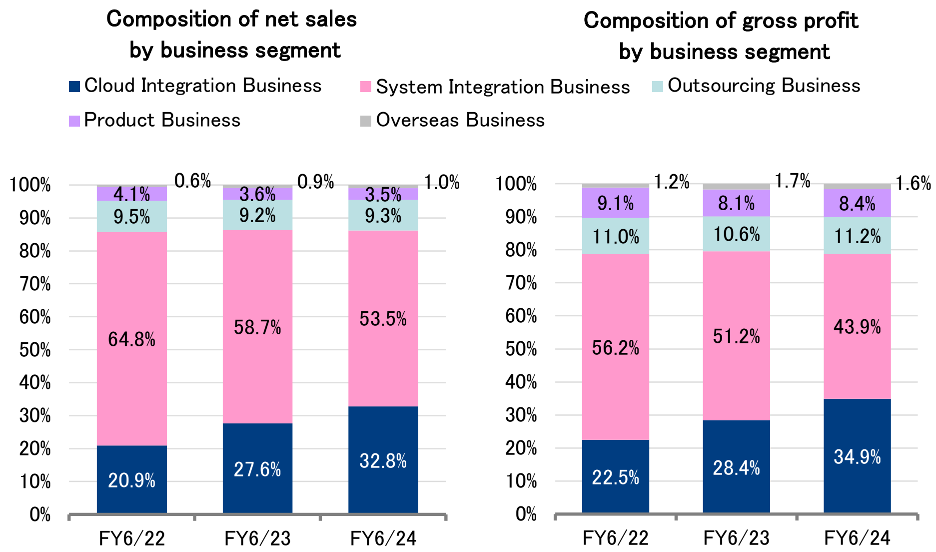
Date	Major event
January 1980	Founded in Kanazawa, Ishikawa Prefecture, providing data entry and system development services.
November 2000	Financed and founded eNet Solutions Co., Ltd.
January 2004	Entered into an Oracle EBS Technical Partner contract with Oracle Corporation Japan <4716>
February 2005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

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 (as of June 30, 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 FY6/24, the System Integration Business accounted for more than half of all sales at 53.5%, followed by the Cloud Integration Business at 32.8%, the Outsourcing Business at 9.3%, the Product Business at 3.5%, and the Overseas Business at 1.0%. Over the past three years, the growth of the market for cloud infrastructure-related services has resulted in a decrease in the ratio of the System Integration Business, while the Cloud Integration Business is trending upward. A similar trend can be seen in the gross profit composition ratios by business segment, where the System Integration Business accounted for 43.9% of profits in FY6/24, followed by the Cloud Integration Business at 34.9%, the Outsourcing Business at 11.2%, the Product Business at 8.4%, and the Overseas Business at 1.6%.



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. Looking at the sales composition in FY6/24, AWS-related services, which saw resale growth, were highest at 34.2%, followed by ServiceNow at 33.1%, Google Cloud at 11.8%, and Microsoft Azure at 10.1%. License resales, which serve as a recurring-revenue business, accounted for 34.5% 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. 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 FY6/24 was 45.0%, surpassing the overall business segment's margin of 29.7%).

Regarding cloud service usage fees in resale, 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 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. 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
• 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[*2] • Received Microsoft Top Partner Engineer Award Received awards in the Azure field in 2023[*2]

AWS
• 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)

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 FY6/24, IT system development accounted for 57.7%, followed by ERP-related services at 28.0% and database-related services at 14.3%.

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 80.3% of net sales. The remaining 19.7% 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 33.3%, 31.5%, 11.7%, and 9.6% of sales in 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 58% 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 receipt and placement system. MOS Lite is priced at ¥19,800 per month (not customizable); MOS pricing varies 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 and 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.

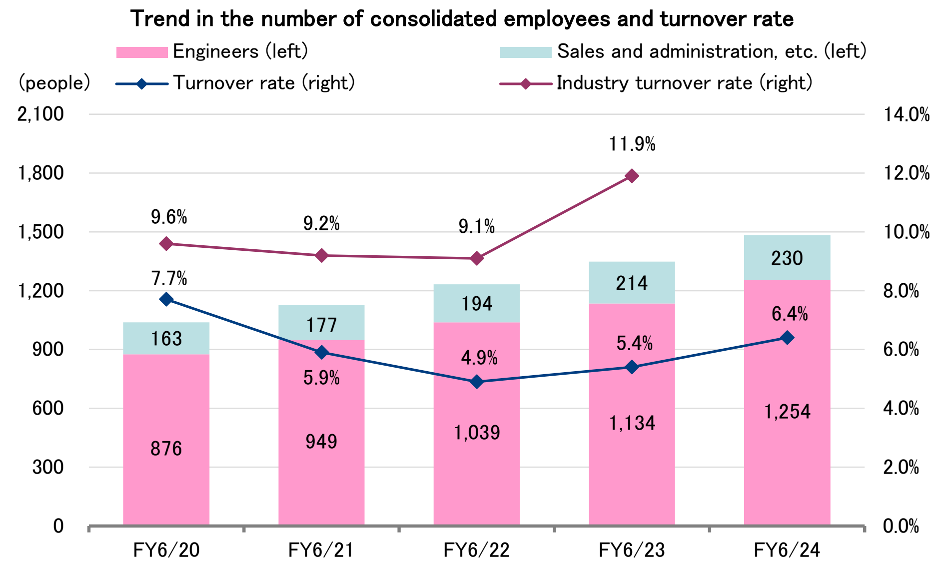
(6) Group companies and the number of employees

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 1.0pp YoY to 6.4%. This is due 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 (over 10%), 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, 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



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

Achieved double-digit increases in sales and profits in FY6/24 as high growth continued in the Cloud Integration Business

1. Outline of results for FY6/24

In FY6/24 consolidated results, net sales increased 14.3% YoY to ¥22,029mn, operating profit rose 14.7% to ¥1,670mn, ordinary profit was up 19.0% to ¥1,743mn, and profit attributable to owners of parent was up 21.2% to ¥1,224mn, continuing a double-digit increase in sales and profit and making the consecutive record-high performance.

Results for FY6/24

(¥mn)

	FY6/23		FY6/24				
	Results	% of net sales	Company forecast	Results	% of net sales	YoY	Achievement rate
Net sales	19,267	-	21,784	22,029	-	14.3%	1.1%
Cost of sales	14,039	72.9%	-	15,938	72.3%	13.5%	-
SG&A expenses	3,770	19.6%	-	4,420	20.1%	17.2%	-
Operating profit	1,456	7.6%	1,763	1,670	7.6%	14.7%	-5.2%
Ordinary profit	1,465	7.6%	1,755	1,743	7.9%	19.0%	-0.7%
Extraordinary income or losses	-35	-	-	22	-	-	-
Profit attributable to owners of parent	1,009	5.2%	1,167	1,224	5.6%	21.2%	4.9%

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

Although the effects of rising prices, yen depreciation, escalating tensions in the Middle East, and other such developments on the business environment remain unclear, companies have been actively investing in IT for reasons including business expansion, strengthening competitiveness, and enhancing operational efficiency. There has been dynamic engagement in DX initiatives with the aims of promoting corporate labor savings and streamlining operations, which is growing demand for new solutions, including the migration of information systems to the cloud and application of generative AI and IoT technologies. These and other factors mean the business environment around the Company is favorable, and the Cloud Integration Business continues to be a driving force in its business results.

On the profit front, gross profit increased 16.5% YoY to ¥6,091mn amid a scenario where the cost-of-sales ratio declined from 72.9% in the previous fiscal year to 72.3% due to changes in the sales mix and effects of increased sales. SG&A expenses increased by 17.2% to ¥4,420mn due to increases in personnel and operational costs, investment in growth (costs related to recruitment, training, R&D, and M&As) increasing by ¥128mn to ¥535mn, as well as the recording of bad debt expenses and associated allowances for doubtful accounts (totaling ¥57mn)* in Q4. However, these were absorbed by an increase in gross profit, meaning the operating margin remained roughly level with the previous fiscal year at 7.6%.

* The Systems Integration Business was preparing for a project when the customer company went bankrupt, resulting in a temporary bad debt expense.

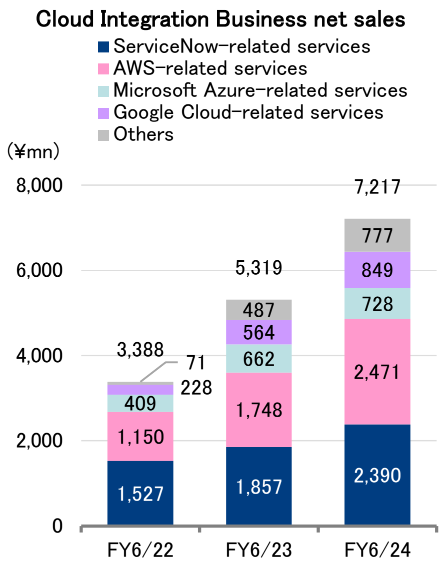
Comparing results to forecasts, in net sales, the Company slightly exceeded its target as a shortfall in the System Integration Business was covered by the growth of the Cloud Integration Business. For operating profit, the Company missed out on its target by ¥92mn but this mainly due to the recording of bad debt expenses, allowances for doubtful accounts, and M&A-related costs (¥30mn). The cost of preparations for the transition to a holding company structure in January 2025 were also greater than anticipated. Additionally, efforts to increase the full-year net number of employees by 136 people went largely according to plan and the Company made progress on strengthening systems for providing services.

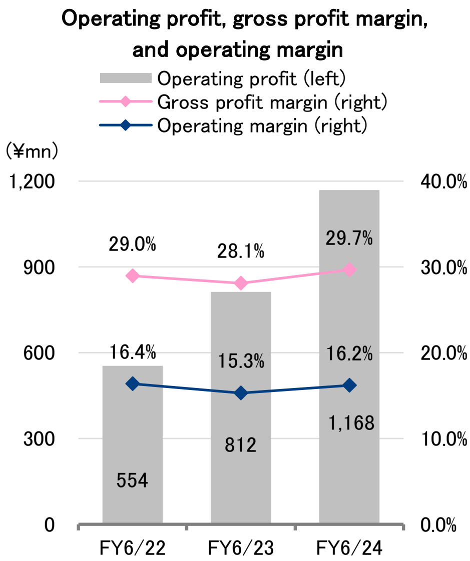
Increases in sales in all business segments, especially the Cloud Integration Business

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 35.7% YoY to ¥7,217mn, and operating profit up 43.8% to ¥1,168mn. The continued liveliness of corporate investment in DX, alongside efforts by the Company to strengthen systems for providing services through recruitment and in-house training, led to strong growth, and net sales and profit both exceeded forecasts. The effects of increased sales and changes in the sales mix meant the gross profit margin increased YoY from 28.1% to 29.7% while gross profit increased 43.2% to ¥2,140mn.





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

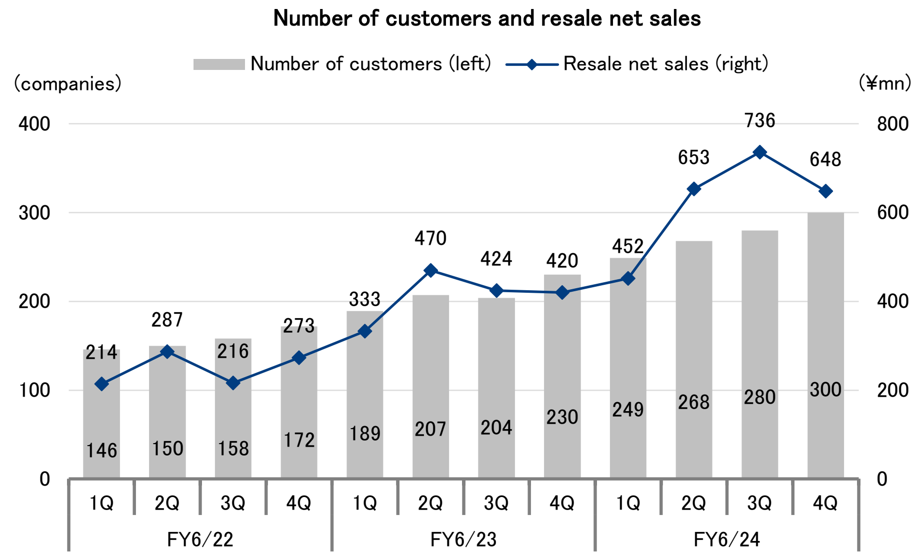
Net sales associated with ServiceNow-related services, which are core services, increased 28.7% YoY to ¥2,390mn and the gross profit margin increased by 0.5pp to 45.0%. The Company has a strong team for ServiceNow-related services, ranked third in Japan* for the number of development certifications obtained, and because of this, along with an impressive track record of introductions, high levels of customer satisfaction, and Elite Partner status which is only granted to companies with established systems for providing services, it has received many referrals from ServiceNow, Inc. An increase in collaborative projects with systems integrators and consulting companies has also contributed to continuing strong growth. One of the main factors behind the increase in the gross profit margin is that the proportion accounted for by low-margin license sales has decreased.

* The top three companies for number of development certifications obtained as of July 2024 were Fujitsu with 975, Accenture with 669, and the Company with 439. The total number of development certifications obtained is 7,804.

Net sales of other cloud infrastructure migration and usage support systems also grew strongly, increasing by 39.4% YoY to ¥4,826mn. Breaking this down, there was rapid growth of sales for AWS-related services, which increased 41.4% to ¥2,471mn, and Google Cloud-related services, which increased 50.5% to ¥849mn, while sales of Microsoft Azure-related services grew 10.0% to ¥728mn and sales of other services increased by 59.5% to ¥777mn. This represents growth in every field. The Company leveraged its technical database capabilities cultivated over many years to achieve growth in projects for the migration and configuration of cloud-based databases and data analysis platforms and it also increased the number of projects in other areas, including the development of solutions that use generative AI technologies such as Azure OpenAI Service. Although the rate of growth for Microsoft Azure-related services looks small, this was because many of the personnel who can engage these projects were allocated to the response to growth in demand for AWS-related services. Enquiries for Microsoft Azure-related services were booming. In regard to other services, there was considerable growth for Oracle Cloud Infrastructure-related services and smooth growth for Celonis EMS solutions* and CyberArk <CYBR> information security solutions. Post-migration resale net sales (primarily for AWS) increased 51.0% YoY to ¥2,490mn in conjunction with an increase in customer numbers (increase of 70 companies from the end of FY6/23 to 300 companies) and an increase in customer spending per purchase, providing a stable income and profit base that contributed to the increase in sales and profit. The gross profit margin for services other than ServiceNow-related services increased YoY from 19.3% to 22.1%. Although the proportion of relatively low-margin license sales rose, the primary factor behind the increase was an increase in the profitability of implementation support and development projects as efforts to strengthen in-house resources reduced outsourcing costs and other expenses.

* 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. In February 2024, it obtained Gold Partner status.

Results trends

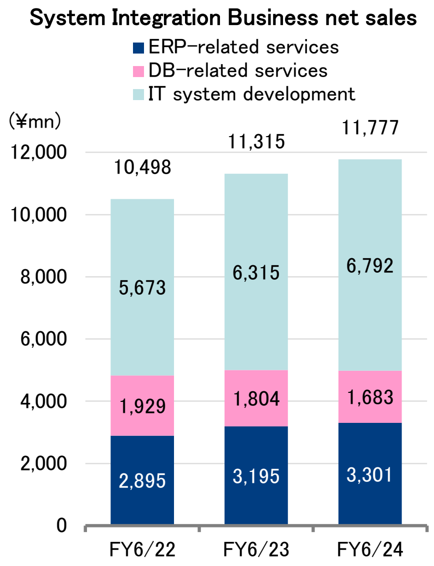


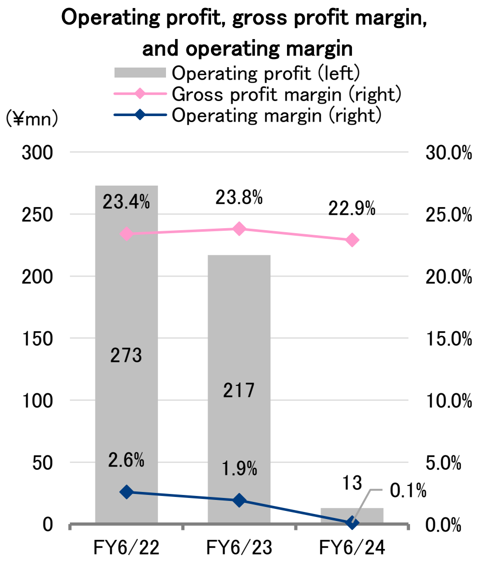
Source: Prepared by FISCO from the Company's supplemental results briefing materials

(2) System Integration Business

Net sales of the System Integration Business increased 4.1% YoY to ¥11,777mn and operating profit decreased 93.7% to ¥13mn. The decrease in operating profit was mainly due to an increase in SG&A expenses, which were allocated proportionally* to each segment in proportion to the cost incurred in each segment, to cover shared SG&A expenses such as head office expenses. Although the gross profit margin decreased by 0.9pp YoY to 22.9% due to an increase in outsourcing costs, gross profit remained roughly level at ¥2,694mn and there was no significant change in the actual profitability of the segment. The increase in outsourcing costs is attributable to a situation in which the Company has been shifting resources into the Cloud Integration Business by reskilling engineers.

* Allowances for doubtful accounts are also allocated proportionally.



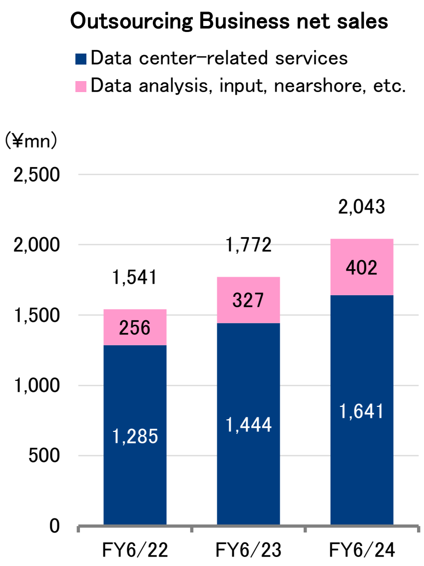


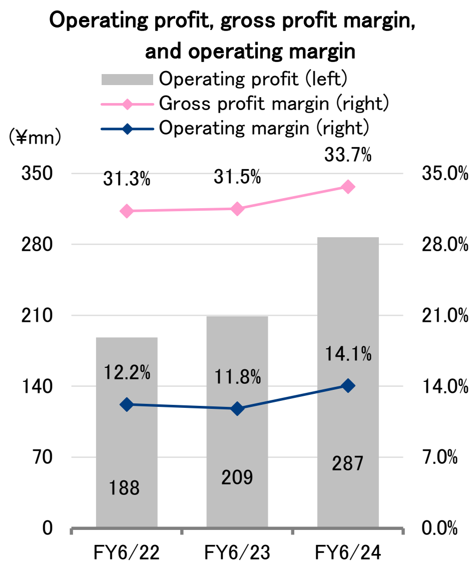
Source: Prepared by FISCO from the Company's supplemental results briefing materials

Looking at the breakdown of net sales, IT system development increased 7.6% YoY to ¥6,792mn due to the continuation of active IT investment by companies and an increase in orders for the development of support applications for cloud migration. Net sales of ERP-related services increased 3.3% to ¥3,301mn due to the steady performance of projects supporting the use of SAP's ERP packages. Net sales of database-related services decreased 6.7% to ¥1,683mn due to the impact of sales shifting to the Cloud Integration Business as customers for database-related services transition to cloud-based solutions.

(3) Outsourcing Business

The Outsourcing Business performed strongly, with net sales increasing 15.3% YoY to ¥2,043mn, and operating profit rising 37.6% to ¥287mn. In data center-related services, there was an increase in usage fees per corporate customer associated with greater customer service use, and monthly usage fees and other recurring revenue accumulated steadily. Additionally, it accrued an order for a data analysis and input service that was highly profitable, resulting in the gross profit margin increasing 2.2pp to 33.7% and gross profit increasing 23.1% to ¥688mn.





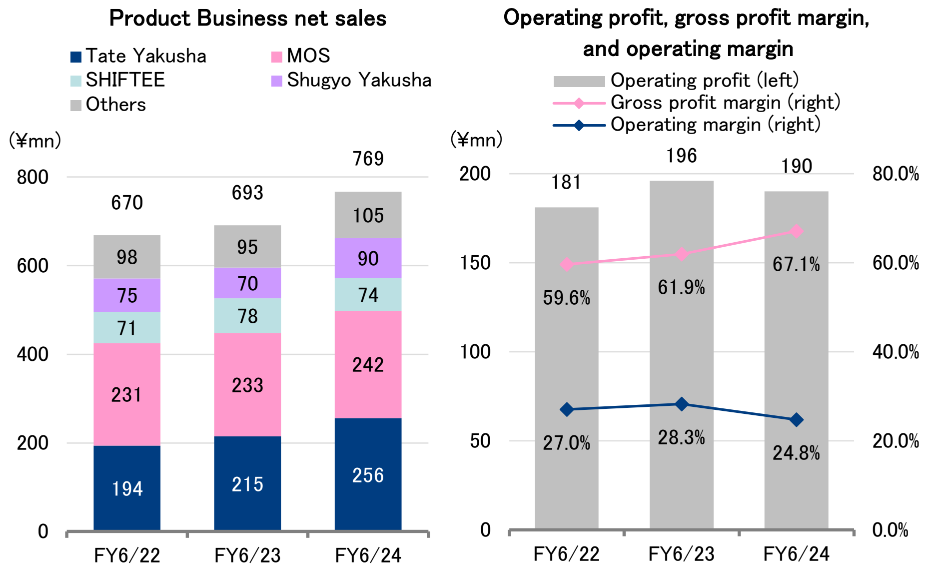
Source: Prepared by FISCO from the Company's supplemental results briefing materials

Looking at the breakdown of net sales, sales of data center-related services increased 13.6% YoY to ¥1,641mn, and sales of maintenance services, including data analysis and input and nearshore operation and maintenance, rose 22.9% to ¥402mn, representing double-digit growth in both areas. In regard to data center services, 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. Also, the Company's efforts to strengthen the operational structures for maintenance of SAP's ERP products in its nearshore business prompted an increase in sales. Monthly usage fees and other recurring-revenue sales in this business increased 8.9% to ¥1,410mn.

(4) Product Business

Net sales in the Product Business grew smoothly, increasing 10.9% to ¥769mn, but operating profit fell slightly, decreasing 2.8% to ¥190mn. This was due to an increase in SG&A expenses as a result of participating in trade shows and actively engaging in sales activities. The gross profit margin increased 5.2pp to 67.1% due to a higher proportion of license fees and other recurring-revenue sales and the landing of a new highly profitable deployment project. Gross profit also grew by double digits, increasing 20.3% to ¥516mn.

Results trends



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

Looking at the breakdown of net sales, there was double-digit growth for both Tate Yakusha, which increased 19.1% YoY to ¥256mn, and Shugyo Yakusha, which increased 28.6% to ¥90mn, while MOS also performed steadily, increasing by 3.9%. On the other hand, sales of SHIFTEE decreased 5.1% to ¥74mn. The increases in sales of Tate Yakusha and Shugyo Yakusha were due to steady progress in attracting new customers amid successes achieved by participating in trade shows and engaging in initiatives involving a distributor-based strategy. With SHIFTEE, the Company has been steadily accumulating recurring-revenue sales, although fewer customizations at the time of service deployment contributed to lower sales. Monthly usage fees and other recurring-revenue sales were up 12.6% to ¥446mn, with such sales accounting for 58.0% of overall sales, an increase of 0.9pp.

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. The Company's targets include large companies that operate 50 or more restaurants and companies that operate multiple types of business. 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.

(5) Overseas Business

In the Overseas Business, net sales increased 33.1% YoY to ¥221mn, while operating profit decreased 5.6% to ¥58mn. Net sales were driven by favorable performance with respect to system integration and recruitment services carried out in North America, as well as payroll and accounting outsourcing services. As some system integration projects had low profit margins, the gross profit margin decreased by 8.6pp to 44.7%, but gross profit increased 11.6% to ¥99mn due to the effects of the increase in sales. On the other hand, operating profit declined due to an increase in the allocation of shared SG&A expenses following a rise in the cost of sales.

Equity ratio rises above 50% and the accumulation of net cash reaches a record high level

3. Financial condition and business indicators

Looking at the Company's financial condition as of the end of FY6/24, total assets were ¥9,929mn, an increase of ¥1,058mn from the end of FY6/23. In current assets, cash and deposits increased by ¥684mn and accounts receivable - trade increased by ¥331mn. In non-current assets, leasehold deposits increased by ¥112mn, but leased assets decreased by ¥46mn and goodwill decreased by ¥29mn.

Total liabilities increased by ¥126mn from the end of FY6/23 to ¥4,873mn. This was because income taxes payable increased by ¥131mn, accounts payable - other increased by ¥128mn, and accrued expenses increased by ¥52mn, even though interest-bearing debt decreased by ¥97mn and retirement benefit liability decreased by ¥171mn. Total net assets were ¥5,055mn, an increase of ¥931mn from the end of FY6/23. This was primarily caused by an increase of ¥861mn 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 50.9% due to an increase in shareholders' equity. The interest-bearing debt ratio decreased from 24.5% to 18.0%, and net cash (cash and deposits minus interest-bearing debt) reached a record high level at ¥3,341mn. These and other indicators suggest that alongside increases in sales and profit, the Company is also making progress on strengthening its financial base. Looking at indicators of profitability, the operating margin was 7.6%, ROE was 26.7%, and ROA was 18.5%. All of these are at roughly the same level as in FY6/23.

Consolidated balance sheet

(¥mn)

	FY6/21	FY6/22	FY6/23	FY6/24	Change
Current assets	5,319	6,303	7,139	8,165	1,025
Cash and deposits	2,697	3,254	3,568	4,253	684
Non-current assets	1,342	1,511	1,730	1,763	32
Total assets	6,662	7,815	8,870	9,929	1,058
Total liabilities	3,669	4,393	4,746	4,873	126
Interest-bearing debt	952	1,149	1,009	911	-97
Total net assets	2,993	3,421	4,124	5,055	931
Security					
Equity ratio	44.9%	43.8%	46.5%	50.9%	4.4pp
Interest-bearing debt ratio	31.8%	33.6%	24.5%	18.0%	-6.4pp
Net cash	1,744	2,105	2,559	3,341	781
Profitability					
Operating margin	6.5%	7.4%	7.6%	7.6%	0.0pp
ROE	25.0%	24.5%	26.8%	26.7%	-0.1pp
ROA	15.1%	16.4%	17.6%	18.5%	1.0pp

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

Outlook

Double-digit increases in sales and profits to continue in FY6/25 as orders environment remains favorable

1. Outlook for FY6/25

The consolidated results forecast for FY6/25 anticipates continued double-digit growth in both sales and profits, with net sales to increase 18.4% YoY to ¥26,087mn, operating profit to rise 26.6% to ¥2,115mn, ordinary profit to increase 20.8% to ¥2,106mn, and profit attributable to owners of parent to increase 18.0% to ¥1,444mn. The Cloud Integration Business is expected to continue being a driving force behind business results. Although a shift in monetary policy by the Bank of Japan means that interest rates are expected to rise going forward, corporate investment in IT will remain dynamic. In particular, demand for ServiceNow as a means of enhancing operational efficiency and for cloud infrastructure migration and usage support will continue to outstrip supply (human resources), so the Company is forecast to maintain high levels of profitability and to continue to grow.

Outlook for FY6/25 consolidated results

(¥mn)

	FY6/24		FY6/25		
	Results	% of net sales	Achievement rate	% of net sales	YoY
Net sales	22,029	-	26,087	-	18.4%
Operating profit	1,670	7.6%	2,115	8.1%	26.6%
Ordinary profit	1,743	7.9%	2,106	8.1%	20.8%
Profit attributable to owners of parent	1,224	5.6%	1,444	5.5%	18.0%
Net profit per share (¥)	118.24		139.38		

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

The Company's recruitment plan for FY6/25 calls for the hiring of 133 new graduates (up 27 from the previous fiscal year) and 122 mid-career employees (up 2). In addition to this, the Company has absorbed 43 employees from Communication Planning Corporation, which joined the Group in July 2024, and its US subsidiary has also acquired 10 new people following a business transfer. This means that the number of employees at the end of the fiscal year is forecast to be 1,722, an increase of 238 compared to 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. At present, the Company has already secured about 90% of its target for new graduates, so it is expected to capture a number of new employees roughly in line with its plans. One of the reasons recruitment has been relatively smooth within a competitive industry is that the Company is not only improving salaries and benefits and enhancing educational systems that support skill development, it is also engaged in ongoing efforts to improve work environments, including actively practicing health and productivity management. The Cloud Integration Business in particular relies on the enhancement of human resources to grow sales, so the smooth progress made on recruitment is a positive sign. As of July 2024, the number of ServiceNow development certifications obtained was 439, an increase of 24.4% compared to July 2023. This smooth increase is expected to translate into strong growth in terms of net sales.

Number of personnel hired (consolidated)

	FY6/22	FY6/23	FY6/24	FY6/25 plan
New graduate recruitment	70	85	106	133
Mid-career recruitment	83	100	120	122
Total number of personnel hired	153	185	226	255
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 July 2024, the Company carried out two M&As and these acquisitions are expected to contribute about ¥1.0bn in net sales in FY6/25. It seems the impact on operating profit has not been forecast for reasons including that the amount of amortization of goodwill has yet to be established. Within this, Communication Planning's most recent results (FY3/24) showed net sales of ¥605mn and operating profit of ¥55mn. Its net assets amounted to ¥496mn, so the difference between this and the ¥600mn cost of acquiring the shares will be allocated as goodwill. Most of its net sales are associated with its HR consulting and map and locational informational solutions businesses, and it is developing XR solutions (training and education solutions using VR) as a new business area. The Company made it into a subsidiary to pursue three goals: to strengthen its ERP-related services business through collaboration with Communication Planning's HR consulting division, to realize synergies in the XR field, where the Company is also engaged in research and development, and to expand services provided by incorporating Communication Planning's lineup of map and locational informational solutions services. Communication Planning's management structure will remain unchanged, and it is expected to contribute to sales and profits from FY6/25. It is anticipated that net sales will mostly be associated with the Systems Integration Business but this has yet to be confirmed.

Furthermore, the businesses transferred from MultiNet International comprise a systems integration business, a DX consulting business, and a cloud-related services business, all targeting Japanese-owned companies based in the US. Net sales are thought to be in the region of ¥300-400mn. These businesses are located in New York and Houston, so this transfer is expected to expand the scope of the Company's US business from the West Coast to include the East Coast, Midwest, and South.

In regard to expenses incurred in FY6/25, although the bad debt expenses accrued in FY6/24 will disappear, the Company is forecasting an increase in personnel and operational costs associated with efforts to strengthen human resources systems, as well as increases in investment in growth (costs related to recruitment, training, R&D, and M&As) and expenses associated with the transition to a holding company structure. The operating profit margin is forecast to increase from 7.6% in FY6/24 to 8.1%, primarily due to the further growth of the high-margin Cloud Integration Business.

Transitioning to a holding company structure in January 2025 with the aim of achieving high annual growth rates of 12.9% for sales and 18.8% for profits over the next three years

2. Medium-term management plan

(1) Outline of medium-term management plan

In August 2024, the Company announced its medium-term management plan rolling plan (FY6/25 to FY6/27), which was formulated while taking into account changes in market conditions and the environment within the Company. The new plan keeps the previous plan's medium-term theme of "Growth and creation of further innovation" and its three priority measures of expansion of services that form the foundation of DX promotion for customers and society, promotion of the growth and success of diverse human resources, and strengthening of sustainability management. Its targets for FY6/27 are net sales of ¥31,709mn, operating profit of ¥2,798mn, and an operating margin of 8.8%. This amounts to three-year annual growth rates of 12.9% for net sales and 18.8% for operating profit. The market for cloud infrastructure-related services in Japan, is expected to continue growing at rates of around 15-19% per year 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)

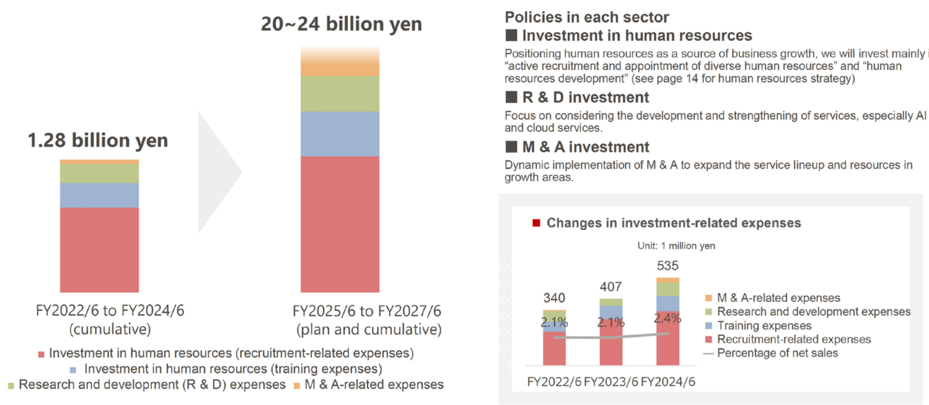
	FY6/24 results	FY6/25		FY6/26		FY6/27	CAGA*
		Previous plan	New plan	Previous plan	New plan	New plan	
Net sales	22,029	24,365	26,087	26,805	28,737	31,709	12.9%
Operating profit	1,670	2,189	2,115	2,407	2,432	2,798	18.8%
Operating margin	7.6%	9.0%	8.1%	9.0%	8.5%	8.8%	-
Number of consolidated employees (people)	1,484	1,633	1,722	1,785	1,884	2,051	11.4%

* Annual rate of growth from FY6/25 through FY6/27.
Note: Previous plan figures are from the plan announced in August 2023 and new plan figures are from the plan announced in August 2024.
Source: Prepared by FISCO from the Company's medium-term management plan materials

Also, compared to the medium-term management plan announced one year ago, the forecast for net sales in FY6/26 has been revised upward by about 7% from ¥26,805mn to ¥28,737mn, while operating profit has been revised slightly upward from ¥2,407mn to ¥2,432mn. The reasons behind the revision to net sales are additional contributions from M&As and the continued strong growth of the Cloud Integration Business. In January 2025, the Company will transition into a holding company structure, expressing an intent to actively pursue M&As. It is expected to target companies that can realize synergies with its existing businesses and companies that are operating in new business areas that the Company has yet to engage. It is envisioning companies that record annual sales of up to around ¥1.0bn.

In contrast to net sales, the reason there is very little change in the operating profit target is that the Company is expecting to accumulate expenses related to investment in growth. Specifically, it will actively invest in personnel (recruitment-related and training expenses) and incur expenses related to R&D and M&A. It will allocate a cumulative total of ¥2.0-2.4bn (¥670-800mn per year) to these efforts over the next three years. Over the past three years (FY6/22 to FY6/24), it invested ¥1,280mn, including ¥535mn in FY6/24.

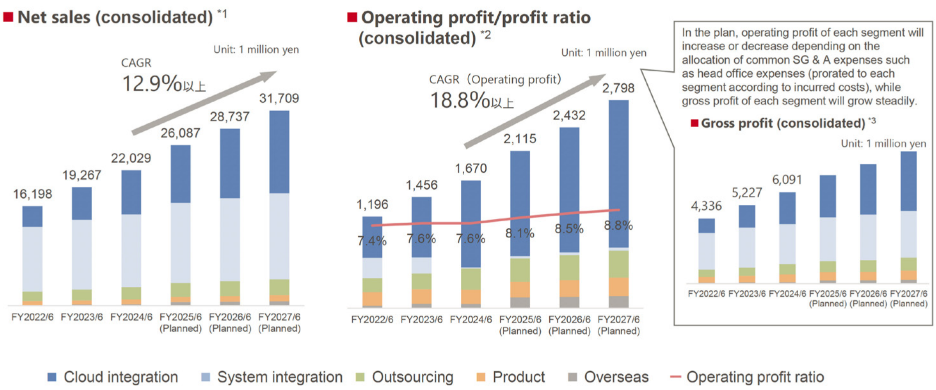
Growth investment policy



Source: The Company's supplemental results briefing materials

(2) Growth strategy by business segment

Medium-term performance targets by business segment



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

a) Cloud Integration Business

In the Cloud Integration Business, the Company's strategy is to strengthen its solid revenue base by increasing orders with a focus on the expansion of business areas and growth of existing businesses, while at the same time accumulating recurring revenue through resale. It is forecasting a three-year annual growth rate of around 20-25% and it is aiming to almost double the amount of sales recorded in FY6/24.

To expand business areas, it will strengthen investment aimed at speeding up the introduction of AI-related and overseas services into the Japanese market. In regard to AI-related services, in May 2023 it launched services for supporting implementation of the Azure OpenAI Service, which enables the use of AI services such as ChatGPT on the Microsoft Azure platform. In October 2023, the Company launched services to support the 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 incorporate Google Cloud AI technology. More recently, in May 2024, it started providing Automation 360 Managed Service, a BPO service that makes it easy to realize business process automation using Automation360, a robotic process automation (RPA) platform supplied by Automation Anywhere, the global leader in RPA. 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. Therefore, the Company is pursuing 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).

To prompt the 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. In regard to other cloud-based services, cybersecurity measures are becoming increasingly important to companies, so the Company is expecting growth for CyberArk information security solutions. Measures to recruit and train talent that can serve as a source of the Company’s growth include 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 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.

Additionally, it will raise the proportion of recurring-revenue sales, namely resales, in its overall sales mix from approximately 35% in FY6/24 to over 40% in FY6/27.

b) System Integration Business

In the System Integration Business, the Company will work to steadily recruit and train engineers particularly for its mainstay ERP, database, and RPA-related services, and it 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. It will also work to win orders by proposing various services, including application development, to customers in other business segments, including the Cloud Integration Business. On the profit front, it will work to maintain and increase profitability by strengthening 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.

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 original services such as AI-related services as a hook. Its goal is to grow annual sales growth by 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 gradually adding capacity at data centers in line with their operating status.

d) Product Business

In the Product Business, the Company will acquire new customers by expanding sales channels through distributors and others, and by strengthening advertising. It will also work to increase the number of users (number of IDs) by expanding user divisions within existing customers. It will improve competitiveness against products of other companies by continuing to enhance the functionality of existing products and shortening lead times to introduction. Its goal is to grow annual sales growth by close to 10%. Also, in order to enhance and maintain stable, high profit margins, its strategy is to increase sales associated with non-customized products and increase the proportion of monthly usage fees and other forms of recurring-revenue sales, with the aim of raising the proportion of recurring-revenue sales from 58% in FY6/24 to around 60-65% in FY6/27. By enabling non-customized sales, it will also make the sales activities of distributors easier, which is expected to lead to the acquisition of new customers.

With respect to specific products, since July 2024 it has been enhancing the standard functions of Tate Yakusha, and it has abolished the previous three-plan payment system (Light, Standard, and Premium) to switch to a uniform plan* (applies to new customers), which is based on the former Standard plan with an added original ledger function. Previously, the original ledger creation and output functions were custom options that could be ordered by individual companies but going forward, users can use the new function to easily create ledgers themselves. Going forward, it will acquire new customer by increasing the convenience of the product through free version upgrades and additional functions.

* Initial cost of ¥500,000 and a monthly fee of ¥50,000 for five licenses. After five licenses, additional licenses can be added for ¥3,000 per license.

Regarding the MOS mobile order receipt and placement system, the Company had been dealing with internal system issues and growth has been lackluster for several years. However, improvements have been made and it is predicted to return to a growth trajectory from June 2025 onward. In January 2024, the Company released MOS Invoice*1, a 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 and MOS Payment*2, a solution that can be readily implemented to enable credit card payments. By enhancing functions in this way, the Company plans to cultivate new customers through improved convenience.

*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.

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. In July 2024, this segment received a transfer of the businesses of MultiNet International and as a result, net sales for FY6/25 are forecast to be more than double those recorded in FY6/24.

(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 providing free DX education for promoting DX in the industry-academia-government-private sector as a hub for communication centered on cloud systems that make it possible to experience the latest technologies. It is also used to hold online seminars, as a business meeting space, and as a coworking space.

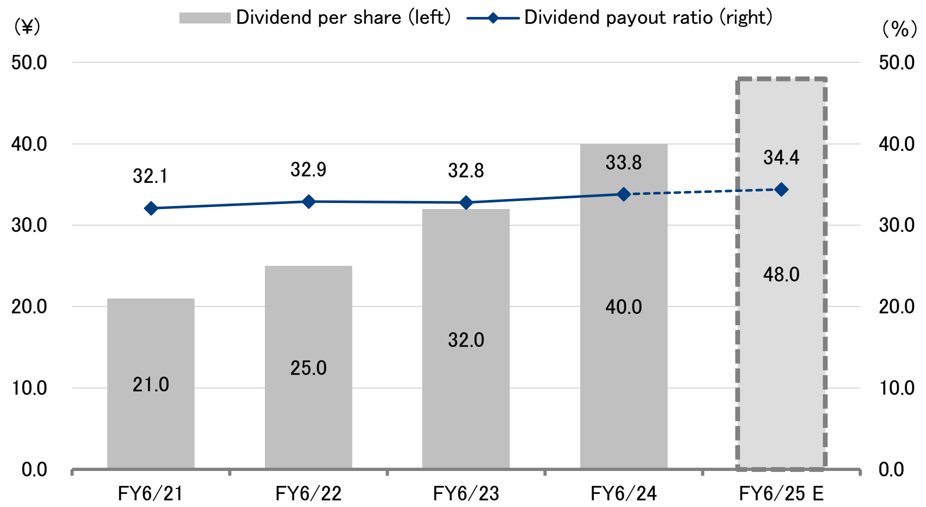
In regard to corporate governance, the Company has established the governance framework necessary to ensure proper business conduct with its sights set on maximizing its corporate value, and duly recognizes that proper operation of its governance framework serves as a key responsibility of management.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

Shareholder return policy

Decided to introduce progressive dividends into the dividend policy and plans consecutive dividend increases

The Company regards the return of profits to shareholders as one of its management priorities and it has announced new changes to its dividend policy. Previously, its basic policy on distributing profits was to improve dividends according to business performance and profit levels, and to provide stable dividends while ensuring it had the adequate internal reserves required for future business expansion and strengthening of management structures. Under this policy, in FY6/24 it paid a dividend per share of ¥40.0, an increase of ¥8.0 on the previous fiscal year and the fifth consecutive year since the Company's listing that it has raised dividends. In order to clarify its intent to build on this track record, the Company has decided to introduce progressive dividends. This means that in principle, the Company will maintain or increase dividends and will not reduce them. Under the new policy, it is forecasting a dividend per share for FY6/25 of ¥48.0, an increase of ¥8.0 from the previous fiscal year, and it is expected to continue raising dividends in accordance with business growth. Its approach to dividend payout ratios is currently unclear, but previously it was targeting a ratio in the 30%-35% range, so it is likely it will continue to maintain the same levels.

Dividend per share and dividend payout ratio



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

Disclaimer

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