BIPROGY Inc.
Briefing Session on Management Policies (2024-2026)
held on June 04, 2024

Principal Questions and Answers

(with certain details modified in an attempt to provide readers with a deeper understanding.)

[Questioner A]

Q : May I ask for actual results and targets for profits from the five focus areas, if you have? Also, what kind of curve do you envision for the final fiscal year of the Management Policies (the fiscal year ending March 2027)?

A : We would like to answer for each area separately.

Financial services: Although a curve will not increase linearly until the fiscal year ending March 2027, we expect: revenue growth as indicated in the Material (p8) from JPY30.7 billion to JPY37.0 billion pursuant to the Business Strategy 2; an excess of JPY6.2 billion pursuant to the Business Strategy 3; and just under JPY9 billion pursuant to the Business Strategy 4. We project an operating margin of more than 15% in the final fiscal year, or an increase of several percent per fiscal year.

Retail: We have a plan for revenue to grow linearly over the next three years. We will grow D2C[*1] and OMO[*2] each. We aim at an operating margin of approximately 11%. We aim at a slight growth and improved optimization.

Energy: We plan to enable an increase of 5% per annum in revenue with an eye towards the final fiscal year. We will operate business with an eye on ensuring an operating margin of 11%.

Mobility: We aim at an increase of approx.6% per annum in revenue and an operating margin in excess of 11% in the final fiscal year. We will work on the business pursuant to planned values that we make for each strategy.

OT infrastructure: We have not indicated an operating margin of the business area of OT infrastructure at this point in time. This is a growth field conducive to increasing an overall operating margin. We will make investments in each focus area and transform the investments into revenue and profits. Some areas will show effects of investment soon. Others will not. We will add services conducive to increasing operating margin of each area for the next three years. Thus, we intend to increase an overall profitability

(*1) D2C: Direct to Consumer
D2C refers to a business model of companies selling their products directly to consumers on an e-commerce site
(*2) OMO: Online Merges with Offline
OMO refers to enabling customers to enjoy services composed of online and offline experiences blended well enough to the level that differences in the service channels are not sensed

Q : I have got the impression that your businesses of growth area need investments and therefore have its profitability compromised, and your core businesses will cover the compromise. You aim at an overall adjusted operating margin of 11%. And, you referred to your targeting at an operating margin of each focus area close to the level. Wouldn't it be possible for you to cover the low profitability of your growth businesses?

A : We will produce services in the growth business areas that will become profitable drastically once a break-even point is crossed. We have launched some services. We have already seen that operating margins of individual stand-alone services are significantly high. We need an upfront investment for new services. Therefore, we will have small operating margin for the first year or two after launch. Having said that, we have already established services conducive to an increase in operating margin. We will develop the services in order to underpin operating margin. For your information, we put the Global Business in the category of growth business. We have not done M&A too much aggressively. We are looking for partners that may join us in creating a world that we envision.

We will focus on the five focus areas. We will make strong investments in resources as well. We will use the knowledge and expertise obtained therefrom in a cross-functional manner in order to increase operating margin. It means that we are given support from customers through our working on operating businesses in the core area.

In there, the key is the DX strategy we have worked on for the past three years in the For Customers area. We will create businesses conducive to increasing our market share and profits through customers appreciating us for our proposal activities based upon painstakingly deliberating DX for customers.

Furthermore, we will create solutions across the markets. We will re-use our capabilities that we have been accumulating, and get rid of errors in order to increase operating margin.

[Questioner B]

Q : You describe "implement human capital allocations" in the focus areas. May I ask how many system engineers are now working in the five focus areas? May I also ask about allocations in three years? I would appreciate supplementary information. How much productivity will you intend to increase as your premise? What human resources plans do you have?

A : We have been establishing alliances with partner companies at home and abroad as part of partner strategies, in order to increase revenue from system services, etc. We have approximately 100 core partners.

We may form capital tie-ups with IT companies in Japan as part of M&A in order to obtain new resources. However, basically speaking, our premise is that we intend to grow according to extended partner strategies.

We have 3,600 system engineers across the Group. 2,500 out of them work on the entirety of core businesses. We may put some, not all, of the rest 1,100 system engineers of our Group into the focus areas.

We are now deliberating how we change allocations of human capital over the next three years. We will disclose anew our thoughts about human capital in autumn or thereafter.

Q : Do you have KPI about improving productivity?

A : We will work on using AI. We have measured effects mainly through POC. We aim to increase productivity by 10% or more over the next three years through using AI in all processes related to system development. In addition, the ratio of developments by our internal system engineers and developments by our external partners is currently about 1:3. We will change the ratio to 1:5 or more over the next three years. The intention is to raise productivity as a whole.

[Questioner C]

Q : There is a wide variety of services in your focus area. Some are growing much. Many are not growing that much. I think this is a reason why your company suffers a relatively small operating margin compared with other companies in the same industry. It would seem to me that you may need to narrow down services slightly more, and you may even need to examine investments in development before making aggressive investments. Otherwise, your operating margins may continue to pale in comparison. May I have your thoughts?

A : We intend to examine profitability from a perspective of the next three years, not a single fiscal year. We have provided numerous services including those not described in the handout and those that we discontinued. We will continue services described in the material for a while. The key is to keep an eye on how we ensure profitability from continuing the services. We will ensure the perspective of if the services will develop into engines of growth. We will work on providing services with an eye on checking the services based on their own merits.

Q : You described the target adjusted operating margin of 11% in the Management Policies. It seems smaller than other companies in the same industry. What is the reason? May I ask for your thoughts? Also, how do you plan to change it in the future?

A : We have not been able to curb SG&A costs as we planned in the beginning. It is partly due to working on M&A partly via Global Business. We have been decreasing SG&A costs in the staff divisions, though. This is part of the reasons for the small operating margin.

Also, the other reason is related to our efforts to break away from the person-month business pursuant to the three-year management plan before the previous one. We still have some way to go in expanding the service-based business, not a person-month business.

We have been trying to increase revenue and profits from system services without increasing the workforce. In the meantime, we planted some seeds of business and commercialized businesses. The commercialized businesses have not been able to increase earnings in an accelerated manner.

We spread out businesses relatively. We promoted business from the viewpoint of total optimization. However, we have now defined five areas of focus as indicated in the Management Policies with the aim of our being on a growth path as we envision towards 2030. We will replace contents or rather increase focus areas dynamically over the next three years if things do not go as expected.

We will concentrate on businesses of higher profitability. We will grow the businesses with capabilities and assets that we do not have internally and we obtain partly through M&A. Eventually, we will aim at an operating margin above other companies.

[Questioner D]

Q : Do you have any things that you intend to work on based upon internal deliberations on shareholder return after the performance results briefing session the other day? If so, please share with us.

A : I confirmed again that we would generate a proper return for shareholders and also increase our corporate value. There are several ways for returning to shareholders. We have been deliberating internally what to do with treasury stock, how much of our own shares to buy back and what to do with dividends. We will develop and expand business with profits surely generated. Furthermore, we will invest in employees. Employees will become our team members unrivalled by other companies and they will create earnings and added value. They themselves will be able to work with vigor and vitality. Rather than sharing the deliberation contents here, I think what is imperative is to make early announcements as an effective measure. We will provide a solid return to our shareholders supporting us.

Q : You described that you would aim at a corporate value of JPY1.0 trillion. May I ask why? May I ask how the value was set?

A : We want to become a company of high corporate value. We aimed at a corporate value worth twice as much as the current value or more. This can sound a rallying call. We have set JPY 1trillion.

As in our Purpose and Vision 2030, we state that we will become a company that solves social issues and create a digital commons through the use of power of digital technology. Unless we aim to become a JPY1 trillion class company, we will not be able to take the lead in solving social issues.

We would like to become a company that is recognized and acknowledged by all for what we are as a JPY1trillion company in light of ESG and non-financial information as well as business strengths.

We will surely engage in dialogue with the market. We would appreciate suggestions from the market. Eventually, we will aim to become a company that can be a top runner in solving social issues.

[Questioner E]

Q : I would like to confirm future trajectory of your SG&A costs.

A : We will implement major construction work on facilities and revamp internal systems in the current fiscal year and the next fiscal year. Costs are inclined to increase for the next two fiscal years. Costs for that will likely decrease in the fiscal year ending March 2027, the final fiscal year, partly attributable to the fact that internal systems will begin production operation. We need to strengthen investments in human resources. We will consider reductions of costs other than personnel expenses.

[Questioner F]

Q : You suffered considerable burdens of costs in the fiscal year ending March 2024 and the fiscal year ending March 2025, due to postponing your internal system renewal project. May I ask about the current situation? What are the issues? How do you plan to solve? What about your cost prediction?

A : We used a core system for 25 years approx. We attempted to replace it with an ERP system provided by a different new vendor for the past three years. We were faced with data migration. The existing ERP system computer program has become a spaghetti code after various customization for the past 25 years. We were troubled in migrating master files.

Monthly reports on the project were made to the management. We expected as of December that it would be possible for us to clear the issue. However, when we conducted an operational evaluation in February, we found that end users would have extreme difficulty in using the system for three months or half a year in a case where we implemented the migration on schedule.

Therefore, we made a difficult decision to postpone the migration at that point in time. We are now completely on track to migrate master files. We will finish the migration as early as in the first half of the fiscal year. It would be possible to begin a production operation during the fiscal year. However, we will stand on the safe side about the migration with a production operation expected to begin in December or in the next fiscal year. We almost finished the development of core system in the previous fiscal year. We look to developments of various systems other than the core system after the core system development is finished.

The postponement of the core system resulted in increasing the cost by JPY700 million in the previous fiscal year. If we can go ahead smoothly in the current fiscal year, the costs will be in line with the plan (which is an increase of JPY 700 million on top of the actual costs of the previous fiscal year)

We will decide based upon the entire system investments contents and business situations, whether we should accelerate other system investments than that or we should level off system investment costs over a longer period of time.

Q : You plan to increase revenue from the Global Business function from JPY2.4 billion in the fiscal year ending March 2024 to JPY 15.0 billion in the fiscal year ending March 2027.

How much of that is enabled due to inorganic business growth? How could I think about profit and loss? What do you think about M&A budget? What situation is the M&A pipeline in now?

A : The performance results of the fiscal year ending March 2024 has already consolidated subsidiaries as a result of M&A. We have already seen several projects in this fiscal year and we are currently examining the projects now. We plan to make M&A deals up to a maximum of 12-fold EBITDA approx.

We have enough pipelines at this point in time. We need to pick carefully among them. Some pipelines may not be conducive to our profits much or even entail goodwill impairment in the future, even if they help us to achieve our revenue target. We use IRR in order to make investment decisions. It depends on the risks. We would appreciate it if we can see an IRR in the higher range of 10%.

We are thinking about the M&A budget as we go along. We have not decided any certain amount that we need to invest definitely. Thus, the budget will depend on the situations.