

BIPROGY Inc.

Small Meeting for analysts (held on June 17, 2024)

Principal Questions and Answers

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

[Questioner A]

Q : Your management policies indicate that you aim at an 11% adjusted operating margin for the final fiscal year (or the fiscal year ending March 2027). Costs will substantially decrease in the fiscal year ending March 2027. Does it mean that you will not have much change in the adjusted operating margin from this fiscal year to the next fiscal year?

A : We are prepared to have a heavy burden of SG&A costs for the two fiscal years. It is attributable to costs for renovating offices and an increase in the personnel costs as a result of a transition to a new personnel system. We expect a significant improvement of adjusted operating margin in the final fiscal year (the fiscal year ending March 2027).

[Questioner B]

Q : You referred to raising the outsourcing ratio from 1 (developments by our internal system engineers) : 3 (developments by our external partners) to 1:5 when you briefed us on your management policies on June 4.

May I ask about the situations in the past? Also, I would like to know what you plan to do in order to raise the ratio?

A : We have been working on partner strategies for the past six to seven years. In the past the ratio was 1:2 approximately. It is now 1:3. We have narrowed down our partners to 100 core partners. We have shared our thoughts in the management policies with the management of the core partners. Also, we have imparted necessary technologies, etc. to engineers in the field. We have had the core partners work on developing their workforce.

There is a shortage of IT personnel in Japan, and companies including our rival companies fight over IT engineers. In this connection, as we have asked for support from our Japanese partner companies, we are asking and will ask more for similar support from Chinese companies that operate local subsidiaries in Japan. We are aware of geopolitical risks around here. Thus, we hedge the risks through our subsidiary in Vietnam. We have been increasing skillful personnel there, with an eye on IT engineers capable of dealing with upper stream processes. We think that we may likely have an increase in the ratio to 1:5 over the next three years if these efforts go on as scheduled.

Q : Your management policies describe that the 'OT Infrastructure' is part of your focus areas subject to your core business strategies. Please help me picture specific businesses of your 'OT Infrastructure'. Also, I would like to know rival companies that you now expect to compete against.

A : Our main focus will be on the manufacturing sector. We will make the utmost use of our strong customer base and our relationships with customers. We would like to expand business based upon focusing on the automotive manufacturers as well as through cooperation with Dai Nippon Printing Co., Ltd. We expect an increase in the demands from the manufacturing sector for digitalizing the process of designing and manufacturing in the future. We do not see specific rival companies right now. Having said that, we expect various IT companies to approach this business area in the future. We would like to take advantage as the first trailblazer.

[Questioner C]

Q : You predict an increase of 1.5% in the revenue from system services in the fiscal year ending March 2025, compared with the previous fiscal year. You referred to a large-scale system development life cycle having been finished and order backlogs being less accumulated at the end of the previous fiscal year, as the reasons for the increase. May I ask about the situations of your current pipelines?

A : We have production operations partly of large-scale systems begun for financial institutions in this fiscal year. This means a decrease in the system development volume.

Despite the fact, we feel strong partly based upon orders from our key customers in the financial industry.

Furthermore, we have now an increase in system development projects that we can work on in a relatively short time, for retail customers. In the future, we are to increase order backlogs, increase the proportion of partner companies and gain revenue. We feel good about the pipelines. We will work on the two issues, how we can finalize orders based upon the pipelines and how we can raise profitability.

Q : The yen is weakening. Are you seeing demands from customers vary in light of IT investments depending upon the business sectors?

A : Retail companies and financial institutions have a strong need to cope with labor shortage at shops. Logistics companies and financial institutions show strong demands in order to cope with labor shortage at shops.

Customers highly depending upon import activities may have difficult business operations. Retailers and food companies cope with the situation partly by increasing their products prices. They do not suspend or slow down system development projects as part of their IT investments. On the contrary, we have customers keen on quickly implementing electronic shelf label (ESL) solutions. It means that executives of our customers understand the significance of DX.

Q : I think that you have been working on an outsourcing business attempt. You try to provide value-added services composed of combinations of your own services and cloud services of other companies. How will this business attempt become tangible over the next three years?

A : A licensing business based upon cloud services provided by other companies has a low

profitability. When we provide the services at the request of customers, we will include our services in providing the services. Eventually, the finishing will be our creating value-added businesses conducive to customers' businesses. It is difficult to improve profitability of our outsourcing business without an increase in the outsourcing services of this scheme. We aim to make managed services become the core of outsourcing services in cooperation with UNIADEx, Ltd. We have worked on PoC for managed services with an eye on creating new types of services. We expect managed services to contribute to earnings at an early stage. Also, we need to make efforts to reduce our costs and at the same time to gain understandings of customers for paying for cost increases. This aims to improve profitability about long-term contract projects. The initiatives as I mentioned will help us aim to improve the outsourcing business profitability.

Q : Please give us specific managed services of UNIADEx.

A : BIPROGY and UNIADEx have provided digital workplace services, security services, and multi-cloud services. Each of the companies dealt with different products. We made different approaches to customers about security services. What we intend to do is to integrate these services into the managed services, more value-added services. There are many products related to security. Customers do not know what combinations of the products will ensure the security. We will package the products and transform into value-added services. We will focus our engineers at UNIADEx in order to create business models that enable outsourcing from planning products, sales tools, and providing support.

Q : I would like to know your relationships with Dai Nippon Printing Co., Ltd. your major shareholder. Also, please tell us how you look to your collaborative businesses in the future.

A : We have developed a very good relationship with Dai Nippon Printing Co., Ltd. We have regular meetings with participants including the top management. We have set targets and promoted business. We have held training camps and study meetings in light of human resources development. We have decided to include new employees since this fiscal year. We have worked on various types of collaborative businesses. We are seeing business seeds grow much after planting many seeds. What to do with our shares held by Dai Nippon Printing is up to their decisions. We think what is critical for us is to become a partner for Dai Nippon Printing in promoting DX. This is in addition to our enabling stable earnings and returning profits to shareholders. We have conducted research activities together. We would like to furthermore accelerate the activities.

[Questioner D]

Q : I would like to ask CEO about the future priorities of your businesses. Also, I would like to know CEO's thoughts about shareholder returns.

A : We will highly prioritize the focus areas of our core businesses and our growth businesses for the three years, as we indicated in the management policies. We have influential customers in the focus areas of our core businesses. We will stably invest in creating software products

and services that are based upon our strengths and become conducive to us being accepted as their partner for many years to come. We have set the five focus areas in order to maximize our performance. Our investments in the growth businesses through the division for Global Business will be made mainly in Asia, as far as it is not reckless. Our investments in the United States will be made for conducting research on open innovation and bringing the technologies to Japan. We have worked on creating new businesses. In future, we will deliberate and decide which businesses to be focused on. We intend to ensure stable shareholder returns. There are some options for shareholder returns. We are deliberating internally in order to let you know early.

[Questioner E]

Q : How do you reflect performances in the five focus areas to your entire revenue and profits? How will you monitor the performances in the future?

A : We monitor the four focus areas excepting OT Infrastructure in units of market, such as financial market and retail market.

For example, we set targets for the financial market from the viewpoint of growths of businesses that support regional banks and shinkin banks. The businesses are exemplified by BankVision and other businesses to support front office duties partly through the use of smartphone applications.

An increase in the sales of these focus areas means that we accumulate knowledge and expertise and also support from customers. We will focus resources on these areas.

We intend to monitor quarterly performance numbers. We will report at the timing of performance results briefing. There was a situation in the past where we called off disclosing revenue/sales by market due to plenty of our solutions supporting across different industries. We will clarify areas where we have strengths and will explain business situations there. We would appreciate opinions and feedback from you that will help us improve our disclosures about business progresses from the viewpoint of your understanding.

Q : You postponed a renewal of your core system. May I ask for your outlook at this point in time? Will engineers be released from the renewal project and become contributors to revenue, after the system is renovated?

A : We aim to begin a production operation of the new system in the next fiscal year. We will finish the system at an early stage. We will test the system at end-user divisions in Q4 of this fiscal year. At this point in time, our recognition is that there is no increase in costs or in periods, more than we expected. We have assigned approx. 150 engineers including those of our group companies for the project. After the system is finished, we plan to assign one third of the engineers (approx. 50 engineers) to areas where they can use the knowledge and expertise that they have learned. The rest will work on maintenance, etc.

[Questioner F]

Q : May I have your prospects of having new customers for BankVision in the future? Other

companies of the same industry attempt to use open core-banking systems. Do you think that their attempts mean an ill wind for you?

A : We have been working on renewing infrastructure and migrating to cloud services at our existing customers. We will work on sales activities in order to find new customers with the movements of our engineers on our radar. It means that we will not accelerate drastically the pace of having new customers. We have already enabled open core-banking systems and public-cloud core-banking systems. We will continue to invest in technologies and R&D. We are in the difficult market where the number of customers is limited. The key is how to show off our trailblazing position in front of new customers. We now receive many inquiries from new customers and there are many pipelines.

[Questioner G]

Q : Your company has been actively deploying businesses across industries for a long time. Do you develop businesses in each business division such as financial section and distribution section? Or, do you have any specialized organizations?

A : We have business divisions for each customer industry. The business divisions steadily support each market. Furthermore, we have established specialized organizations that support across the divisions. Industries make movements quickly. We sometimes create a cross-divisional project depending upon the situations. The project may become grow at a formal organization.

Q : How do you manage your engineers as resources? Do you think that you have enabled flexible allocations of the resources across vertical business divisions and cross-sectional organizations?

A : Sales organizations and engineering organizations are separate. We have approx.2,000 engineers in the engineering organizations.

We are monitoring the situations of orders and pipelines, and we enable pretty much flexible operations of assigning engineers among business divisions. We update monthly information such as the utilization rate of engineers and the situations of engineers assigned to projects. The information is made visible to sales organizations as well as engineering organizations.

Q : Do I correctly understand that revenues from the five focus areas as set forth in the management policies are tallied for individual business divisions dealing with individual customer industries?

A : It is not numbers in units of business division. For example, when we refer to retail, we carve out retail outlets and merchandising schemes out of distribution business divisions and put them together in a focus area. We may see new projects emerging or concerns suffered or areas of interest existing at or among our existing customers. Personnel of business divisions are watchful and careful not to miss opportunities for making proposals in cooperation with cross-divisional organizations. The key is communications among organizations.

We have set these focus areas with an aim to clearly convey to employees and customers what our growth drivers are and how we want to develop ourselves. We would like to deliberate on providing a more easily understandable disclosure for investors.

(Note)

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