

BIPROGY Inc.

Small Meeting for analysts (held on December 4, 2024)

Principal Questions and Answers

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

[Questioner A]

Q : Can you tell me about the current situation of your internal system renovation project?

A : We launched a work team in October. The team began to peruse the development situation. We froze a project that we had run up to that time for the moment. We have had employees of departments performing on-site operations through the actual use of the system participate as dedicated members together with employees of IT department. They are from the sales department, accounting department and purchase department. We will have considered a future recovery plan and arrangements by the end of the year. In January, we will have a new organization. The new organization will have perused future schedules and costs by the end of March. Upon making decisions, we will report internally and externally.

In light of impacts upon performance, we expect to see costs slightly reduced below what we had been prepared for in the beginning of this fiscal year. It is due to freezing the project for the moment. Our premise is that we will use software that we have already capitalized as much as possible (approx.¥5.5 billion).

We have postponed the internal system renovation, and as a result, we won't see soon cost reduction as we expected to benefit from the renovation. We have no intention of revising the numerical targets as indicated in the Management Policies at this point in time. We mean that we aim to achieve the targets through offsetting by increasing revenue and profit as well as taking other costs reduction measures.

[Questioner B]

Q : You mentioned struggling with master data migration when you referred to your internal system renovation project. May I ask why?

A : We mainly struggle with migrating products master data related to Support Services. We wanted to migrate what we have now to SAP. However, we know that a master record as we have will translate into a master record 10 times or 20 times as large. It is due to the fact that there are various combinations of services. We worked on the project in compliance with our policy of adjusting to SAP through the SAP Fit to Standard approach. Now, we will change the policy. We have understood that we will face backlash from our forcing ourselves to adjust to SAP. Operations including maintenance after a production operation will end up being more complicated and less efficient.

Q : May I ask why you chose SAP for your new internal system?

A : We benchmarked other companies when we made considerations. We found that SAP is used by many companies from the viewpoints of international accounting standards and

standardization. It is a de facto standard in light of deploying business on a global scale. Thus, we chose SAP.

[Questioner C]

Q : Have you seen any changes in the situation of your internal system renovation project, compared with that when you announced the performance results of the second quarter?

A : We decided to freeze the project for the moment. We will have employees of departments performing on-site operations join as members in January. We will surely peruse system operations by March next year. We will surely peruse system operations by March next year. We will make final judgements about migrations only after confirming that business process engineering (BPR) will be enabled through a renovated system as we aim originally.

Q : Do you think that it is possible to furthermore improve the profitability of IT Outsourcing business performed by UNIADDEX, Ltd.?

A : We see there is room for the profitability to furthermore improve, from the viewpoints of improving cost-efficiency by increasing business volumes, and improving profitability by adding their own services. We have worked on a strategy of improving profitability through differentiation attributable to unique services that we create from repeating aggressive investments in the areas of Core Businesses as described in the Management Policies. We also want to see UNIADDEX follow similar strategies and create their unique services partly about monitoring networks and security in the area of operation and management.

In addition, we established a team to deliver one-stop support for managed services as well as multi-cloud and hybrid-cloud environments at UNIADDEX in this fiscal year. We seconded approx. 240 engineers specialized in security and infrastructure for cloud to UNIADDEX and put them in the team. BIPROGY will sell the services in the future, as well.

Furthermore, we have been working on attempts to improve utilization rates of engineers. We have seen signs of Support Services maintenance costs being improved (being reduced). Thus, we have gradually been benefiting from the attempts as well as our initiatives to strengthen our collaboration with partner companies.

[Questioner D]

Q : Please give us a future picture of the entire costs for internal systems including costs related to the internal system renovation.

A : Security risks caused partly by ransomware are more buzzworthy in the recent years. We have intensified our efforts to strengthen our security as reflected in an increase in the costs. We plan to move on with the costs kept from increasing in the next fiscal year if at all possible, compared with this fiscal year.

Q : You have some software capitalized due to renovating internal systems. Are there any possibilities that the software suffers impairment in the fourth quarter of this fiscal year, or in the next fiscal year?

A : Our current premise is to use software that is capitalized. If we do not use some, we will book impairment promptly. Having said that, most of the software assets that are now capitalized constitute interface in the periphery of SAP. The software assets are subsystems to connect SAP systems and other internal and external systems. Thus, we recognize that we can use most of them.

Q : I would like to know your thoughts about a direction of your future strategy about Outsourcing Business and how the business will contribute to revenue.

A : We defined our focus areas as our future growth drivers as indicated in the Management Policies that we launched in this fiscal year. We feel good about acquiring new orders.

For example, it is in the retail area. We have launched an upstream process of a project for a new customer. I hope that we can share a story in the future that the project will have enabled us to obtain large amounts of orders for outsourcing and other projects. Also, we have steadily worked on an attempt to provide a large-scale packaged service composed of small services. This may be converted into actual numbers, although it's a bit further into the future.

Also, our initiatives of advancing servitization are exemplified in the financial area. We dared to take a one more step forward from servitizing mission-critical systems and service applications. We have worked on servitizing clerical duties at financial institutions since before. We are earning high reputation in this regard. Mission-critical systems for financial institutions cost much and so it is long before customers takes long before to decide upon policies. This means that we do not obtain orders consecutively in a short period of time. However, we feel a large wave now coming towards us.

We have a large selection of assets unique to our Group as well in other focus areas, as clearly indicated in the Management Policies. We have obtained a kind understanding from customers, and we feel a good response.

[Questioner E]

Q : What impact will a delay in the internal system renovation on your business?

A : We expected a renovated system to optimize business operations.

We would have a decrease in operating costs for activities partly of sales and procurement by approx. a few hundred million yen annually. However, we put off the schedule for system renovation, and so a renovated system will begin a production operation later than in April 2025. We will benefit only later.

Q : Will costs be reduced after a new internal system operates?

A : We expect that once the system development is finished and a new system begins a production operation, operating costs will be reduced. Thus, if we postpone a year, we expect to see costs begin to decrease in the fiscal year after the next fiscal year. At the very beginning of this fiscal year, we assumed that if the new system begins operation in April 2025 as planned, we will have costs related to the internal system renovation be reduced by

¥0.5 billion compared with the actual result of the fiscal year ending March 2024. The costs will be furthermore reduced by ¥0.3 billion in the fiscal year ending March 2027. However, in an event where software assets are increased from supporting a migration of products master data in the future, we expect an increase in depreciation costs than our original assumptions (pursuant to depreciation over five years).

[Questioner F]

Q : We see a strong demand for IT infrastructure in the market. What is the strength of UNIADEX?

A : UNIADEX's strength of delivering one-stop infrastructure environments has come to be recognized in the market. We have seen an increase in orders mainly from government and municipal offices for projects in the public sector as well as in orders for traditional projects for telecommunications companies. We have seen businesses at UNIADEX boosted on the basis of movements independently made by UNIADEX as well as orders from customers of BIPROGY.

Q : You have worked on attempts of promoting digital transformation (DX) and regional revitalization, as well. The attempts are partly reflected in collaborating with regional banks. May I ask about progress situations?

A : We have been promoting DX with small and medium-sized companies in the local areas kept on the radar as well. We would like to create a virtuous cycle that will enable us to be recognized by many regional banks as their partner. Also, we will combine services of our Group with open innovation attempts at regional banks, with an eye on regional revitalization.

[Questioner G]

Q : I'm interested in what you aim at through enhancing your businesses in a global arena. Also, I would like to know the current progress situations of M&A and other attempts.

A : Our Group vision in 2030 is to become the first company group that comes to mind when customers want a partner in solving social issues. We think that our running business only in Japan does not suffice in this regard. We want to deliver services across the Asian region or even in the entire world. We know that this is not possibly achieved overnight. Also, we are aware of risks entailed in the picture, as we have learned from other Japanese companies' attempts of business on a global scale in the past.

M&A is a means only. For our first target, we make investments in companies that are capable of delivering infrastructure services in the Asian region. This will enhance our Group network. We purchased a few companies, not large companies, from the viewpoint of a management team talking to us about the same vision. We purchased a few companies, not large companies, from the viewpoint of a management team talking to us on the same page. We have been discussing what can be done and if the knowledge and expertise of our Group can be used, with our targets set for the next three years. At the same time, we have been improving M&A approaches. We would like to share system development methods and

delivery methods of our Group with companies that were acquired. We want to thus strengthen our network.

[Questioner H]

Q : You delayed your internal system renovation, as you mentioned. You will have possible benefits from the renovation postponed. As a result, depreciation costs will likely be increased. What cost reduction measures do you plan to take?

A : We will work on efforts to reduce costs in various areas obviously. We will repeatedly reduce each cost of the items such as office renewal and business trips. Furthermore, we will revise budget plans and surely monitor progress situations. Also, we will steadily increase revenue. This will help us increase earnings enough to absorb costs.

Q : Please give me your perspective about what delayed the internal system renovation.

A : The project was launched in 2021. We should not have been bound that much by the SAP Fit to Standard approach. We think that we should have had employees of departments performing on-site operations deeply join much earlier. We will have employees of the departments join a new team in January next year, with an eye on enabling BPR, rather than a migration to SAP which is not our intention.

(Note)

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