BIPROGY Inc.
Earnings Announcement
for the Second Quarter of the Fiscal Year Ending March 2024
held on November 1, 2023

Principal Questions and Answers

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

[Questioner A]

Q : Operating margin is 11.6% in this second quarter (Jul-Sep period). It is an improvement from 10.5 % in the same quarter of the previous fiscal year. I would like to know factors that enabled the improvement.

A : If I look at the situation in light of segments, an improved gross margin of System Services was enabled through very many highly profitable projects in Q2. The Outsourcing gross margin was slightly negative. It is attributable to a slight increase in operating costs as I mentioned minutes ago, and impacts of costs spent for a business for regional financial institutions. We owed the improved Software/Hardware gross margin to the Software/Hardware product mix.

Q : May I ask why you had an increase in the highly profitable System Services projects? For example, is it because of any seasonal effects? Or, is it an increase in highly profitable projects only due to switching over to high-value-added projects?

A : We have seen a significant number of traditional system development projects switching over to projects related to digital transformation (DX). In this environment, we have seen customers keep strong appetites for IT assets investments. On our side, we have furthermore intensified our efforts such as those to re-use our assets that we developed through our DX experiences, with an eye on improving productivity. The result is a synergistic effect of our customers shifting to DX and our improved productivity. We have come to see an improvement of gross margin for large projects as well as small to medium projects.

Q : You have enabled a structural improvement of profitability. Do I correctly expect that you will continuously keep this level of gross margin in the second half and thereafter?

A : We expect that we can keep this gross margin in the second half and thereafter.

Q : You mentioned that Software product mix was the reason for an increase in the gross margin. I would like to check if there were any temporary factors of the increase such as sales of high-margin products such as those related to mainframe.

A : We did not have mainframe software sales in the second quarter that can be cited as temporary factors. We have a product mix composed of third-party software products and our own software products represented by solution services. We saw more robust sales of our own software products in this quarter than in the same quarter of the previous fiscal year. Thus, the product mix composition contributed to improve the Software profitability. In addition, there were products such as Microsoft 365 that we used to post in the Software segment. However, the products have been shifted to those in cloud mode, and thus, we now post the products in the Outsourcing segment. In other words, sales of less profitable products are posted in Outsourcing segment, resulting in contribution to the improved Software gross margin.

Q : I would like to know the reason why you have a decrease in the Outsourcing gross margin in the second quarter, compared with the same quarter of the previous fiscal year. Do I correctly assume that an increase in the business of purchasing and selling services of third-party companies, may be one of those factors for the decrease?

A : We have been faced with an increase in various costs about the Entrusted operation-type Outsourcing. We have been making efforts to strengthen productivity across the group and we have been negotiating re-pricing with customers. We do not expect to achieve results through these efforts in a short period of time, and we spend some time. In addition, our Shinkin bank customers, users of SBI21 our conventional solution, have been coming to switch over to OptBAE. It means that the Entrusted operation-type Outsourcing is being replaced by the Corporate DX-type. In other words, there is a decrease in the number of users of our conventional SBI21 solution. Fixed costs incurred from operating SBI21 in addition to the other service slightly compromise profits raised in the Entrusted operation-type Outsourcing.

We have spent costs for strengthening OptBAE functions. Also, we saw cloud services provided by other companies occupy a high percentage of revenue. As a result, the gross margin of Corporate DX-type Outsourcing is dampened. If we exclude this aspect, the gross margin stands at a high level.

The Service-based-type Outsourcing continuously indicates a high profitability.

Q : How long will you continue to enhance the OptBAE functions? Also, how long will you bear the costs of operating the two solutions, SBI21 and OptBAE?

A : We intend to continue the functionality enhancement for one or two years. We have just launched the OptBAE service. If we slacken the efforts here at this point in time, we may get behind our competitors. We intend to entice and have new customers by providing new and strengthened functions.

The costs that we bear from the double operations will be cut off once we totally finish replacement to OptBAE. It is a burden only for a limited period of time. We hope that we can finish the replacement in one or two years.

Q : I would like to know why UNIADEX goes strong. It is said that telecommunications carriers are not earnest in investing IT infrastructures. What drove the UNIADEX business?

A : I think that it is a fact that telecommunications carriers make slightly weak investments in core systems of their business. Telecommunications carriers occupy much of the customer base of UNIADEX. However, UNIADEX receives more inquiries about the network services mainly from businesses in the education field and the healthcare field, in comparison with other network services providers. Also, the profitability of network services for those businesses is more favorable than that for telecommunications carriers. Thus, UNIADEX saw a significant increase in revenue and profit in the first half of this fiscal year under review. Order backlogs are accumulated, as well. We expect that UNIADEX will continue to keep this trend in the second half.

Q : It would seem that SG&A expenses are not so huge in light of your good performance in the first half. Do I correctly expect that you will maintain cost control efforts in the second half continuously? Will SG&A expenses remain at the same level as indicated in the plan at the beginning of the fiscal year under review?

A : We have been working on posting provisions for bonus payment slightly ahead of schedule. It is ascribable to our good performance. We do not see any other factors to cause a significant increase in costs at this point in time, in particular. We will surely keep costs under control.

[Questioner B]

Q : How do you evaluate your actual performance in the first half in light of your internal plan? You posted operating profit above the market consensus by approx. 1.0 billion yen. Do I correctly assume that your actual performance outperformed your internal plan that much?

A : I would like to refrain from sharing figures that indicate a comparison between the actual performance and our internal plan. Having said that, I saw System Services and Hardware Sales continuously go strong. The businesses showed much stable strength in light of internal evaluations. Our operating profit amount outperformed our internal plan by as much as the deviation of it from what was expected in the stock market.

Q : Services orders in Q2 increased by 0.5% compared with the same period of the previous fiscal year. It would seem slightly weak. Are there any special reasons? Can I expect an uptick of inquiries in the third quarter and thereafter? You describe in the handout that you had a good accumulation of orders related to passengers business in the infrastructure business sector. Have you seen other customers of yours easing out of the COVID-19 pandemic and resuming their investments, as well?

A : In the second quarter of the previous fiscal year, we posted large projects such as those of BankVision. Thus, in contrast, it may give the impression that we have got a slight pause in the growth of orders in this quarter. However, we have already received a large order in October of the third quarter. Furthermore, we will receive multiple large orders in the third quarter. I think that we can expect a strong uptick of orders. In the area of infrastructure business sector, as you see, foot traffic has been resumed. Investments are becoming resumed in the businesses related to transportation. We have come to receive some orders.

We expect entertainment businesses to resume their strength soon or later, although we see some weakness in them.

Q : You set 34.0 billion yen adjusted operating profit as your target in the final fiscal year (the fiscal year ending March 2024) of your management policies. If you continuously foresee none of any significant compromising factors in the second half, do you expect that you can achieve that target?

A : We saw a good accumulation of order backlogs scheduled to be posted as revenue in the second half of the fiscal year, as well. We see no particular risks. Although we have decided to keep our full-year forecast, we will take into consideration situations of several orders for large projects as we expect to receive going forward. If we think that we need to revise the full-year forecast depending on the situations, we will thus announce immediately.