

BIPROGY Inc.
Earnings Announcement
for the Third Quarter of the Fiscal Year Ending March 2024
held on February 1, 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 why you posted an increase in the revenue and a decrease in the gross profit of Outsourcing in Q3 on an accumulated basis?

A : The increase was enabled by an increase of ¥3.7 billion in the sales of cloud services delivered by other companies compared with the same period of the previous fiscal year, and an increase in other businesses. On the other hand, selling cloud services delivered by other companies is little conducive to our gross profit. Our gross profit was hurt also by a decrease in the gross profit from services for Shinkin banks and an increase in the operating costs for Outsourcing Services.

The Shinkin bank services gross profit is decreased on a year over year basis. It is attributable to the conventional type of Shinkin bank services and the OptBAE services continuously co-existing. The OptBAE services generate a reasonable amount of gross profit as a result of customers migrating from the conventional type of services. The OptBAE services will be conducive to improving the entire gross margin in the future partly due to our efforts to furthermore optimize operational efficiency. Having said that, to the extent that the conventional type of services continuously exists, we will continue to bear costs from the old services. We expect that we can get rid of this issue in FY 2026.

Q : May I ask when you plan to announce your next management policies over the span of how many years? May I ask for any suggestions at this point in time?

A : We plan to announce our next management policies in April when we announce our full-year performance results. The policies will cover three years. We are in the midst of discussions, and therefore, it is difficult for us to show details. We would appreciate your patience until our announcement.

Q : May I ask for your comments about activist shareholder for your major shareholder, Dai Nippon Printing Co., Ltd., (DNP)?

A : We do not have any special comments. We continuously have a very good relationship with DNP. Our both companies continuously work on sales activities, services development, and starting new businesses, together.

[Questioner B]

Q : You have revised upward your full-year forecast this time. It would seem that you will have a slight decrease in revenue and income in Q4 (the Jan-Mar period) if we deduct your actual performance up to Q3 from the full-year forecast. May I ask for reasons why you did not make upward revisions by a larger amount than this much?

A : We extremely likely tended to post revenues in Q4 in a business year. We continued to perform sales activities conducive to levelling out revenues posted throughout this fiscal year. The sales up to Q3 were driven significantly compared to the average year, partly attributable to the efforts. We are prepared to see a decrease in a backlash in Q4, and therefore, we have decided to make the upward revision of this much to the full-year performance. Needless to say, we aim to increase revenue in Q4 as well. We have seen an accumulation of order backlogs scheduled to be posted as revenue in Q4. We posted orders and revenues from many projects mainly about hardware products in Q4 of the previous fiscal year. We have seen the situations and we make this revision. We will do our best with an eye on the closing of the fiscal year.

Q : You showed a strength of orders for and revenues from Software and Hardware in Q3 (the Oct-Dec period). May I ask for details? Do you expect that this strong momentum will continue?

A : We have created a robust pipeline for software products. Our services and capabilities to implement licensed software products such as Microsoft 365 run deep among and gain support from customers. We have seen and will continue to see for a while signs of improvement in the revenue and gross margin of hardware products. This is ascribable to: small and medium-sized projects about PCs and network devices getting accumulated at BIPROGY and UNIADDEX; resuming implementation of more devices along with a semiconductor shortage being addressed; and, multiple projects of higher profitability than that of the previous fiscal year being accumulated.

Q : You announced your taking office as a new CEO today. May I have your comments partly on the future direction?

A : I am planning to announce in April our strategies as well as next management policies. We would like to focus on finishing well until March of the current fiscal year, and also we would like to increase good projects with an eye on the next fiscal year.

I have focused on sales activities. As the CEO, I would like to support DX initiatives at customers, our assets. Furthermore, we will use our support extensively in cooperation with our business partners and customers, with an eye on creating values that benefit society, as indicated in the current management policies reflecting the "For Society" concept. We will create new economic values with social issues addressed.

[Questioner C]

Q : May I ask what you would like to retain in the capacity of the new CEO? What do you want to change in the future?

A : I have been working on business with Mr. Hiraoka, the current CEO. I would like to maintain our open innovation initiatives as we have been promoting, create business together with our valued customers, and accelerate DX attempts at customers.

On the other hand, I would like to make changes in our global business. We have been focused on businesses in Japan with progress yet to be achieved in entering a global business arena. I think that it is necessary to grow employees of our group companies through changing their mindset in order to resort to drastic measures. I would like to announce specific strategies that partly reflect this viewpoint in April. We are prepared to finish the current fiscal year with two months to go, and make good preparations with an eye on the next fiscal year.

Q : You also announced structural reforms today. Please describe key points of change that you would like to emphasize to investors.

A : There are two major points. Point 1 refers to integrating functions of a virtual organization, the Managed Services Center, established in the fiscal year under review into UNIADDEX, Ltd. in order to enhance the strength of the organization and establish it as a stronger business pillar. This will second approx. 240 to 250 engineers currently specialized in cloud computing and security at BIPROGY to UNIADDEX. We expect to see a decrease in the sales at UNIADDEX from support services of software and hardware from a medium to long-term viewpoint in the circumstances of a shift gaining momentum towards cloud computing. We will strengthen the Managed Services Center at UNIADDEX as a new business pillar to compensate for the decrease. Point 2 refers to upgrading a function specialized in dealing with businesses on a global basis, and speeding up business processes through transferring employees from the Group companies.

Q : You continuously posted a decrease in the gross profit of Outsourcing in each quarter compared with the corresponding quarter of the previous fiscal year. When do you think that you can achieve a turnaround with an increase in the gross profit?

A : As I briefed you earlier, we expect to bear costs for the conventional system up to FY2026 before OptBAE takes over the service. We would like to improve profitability of the entirety of Outsourcing business as soon as possible. We will address an increase in the various types of costs partly through convincing customers for gaining understanding about passing costs onto customers.

[Questioner D]

Q : You have continuously enjoyed a high level of profitability of software and hardware products for the fiscal year under review. Do you expect this level of profitability to continue in the next fiscal year and thereafter?

A : We posted an increase in the hardware revenue. It is due to: extremely intensified demands related to network and for replacing PCs; deliveries picking up and making up for delays attributable to a shortage of semiconductors; and small to medium-sized projects accumulating as well as large-scale projects. Gross margin varies depending upon a product mix. UNIADDEX is focused on selling products with more watchful eyes on profitability. We will work on sales in the next fiscal year continuously under the policy of prioritizing profitability as much as possible.

With regard to software, we have a small profitability for open-type software products related to remote working. Having said that, we focused on promoting the sales of our own software products in Q2 and Q3 of the fiscal year under review. We manufactured the products, and thus, the products are comparatively highly profitable. The key is how much we can increase the sales percentage of our solutions. In other words, the profitability of the entire software products will be subject to how much conducive to DX attempts at customers our solutions can be. We think that there are good demands for our solutions. We expect an inevitable increase in the profitability of software products as a result of focusing on sales activities together with engineers with an eye on accelerating DX efforts at customers. Providing products and services delivered by other companies is the first attempt to hook customers. Providing products and services delivered by It does not constitute an increase in the profitability. It is imperative to provide what is valuable in light of promoting DX initiatives at customers.

Q : You will have the first fiscal year for the next management policies in the next fiscal year. Do you foresee any elements of pushing up costs at this point in time?

A : We are in the midst of deliberating upon our next management policies. We would appreciate your patience until we have an announcement in April. What we can predict to some extent in light of costs for the next fiscal year includes personnel costs that will be increased, partly attributable to a revision of human resources system and a rise in the commencing salary for new graduates in the next fiscal year. Costs for renewing our internal systems that we have been working on will be incurred as planned. We now see no significant increase in the costs. Also, we are considering reviewing facilities with an eye on reducing costs in the future. This specifically refers to the Head Office in Toyosu that experiences a decrease in occupancy rate after the COVID-19 pandemic. In this connection, we may likely see a temporary increase in costs to be incurred from renewing or reducing our facilities.

[Questioner E]

Q : You mentioned that you focused on selling highly profitable software products that you manufactured in Q2 and Q3. May I ask which software products were bestsellers? Also, may I have a ballpark figure to get a sense of how much increase you expect from the mid to long- term?

A : We have strong assets of software products for financial institutions, manufacturers and distributors. We used to sell the products and post software revenue. We aim to provide the products as services from now on and post Outsourcing revenue with an eye on improving the Outsourcing profitability. We plan to issue the next three-year management policies that contain descriptions about approximate numbers.

[Questioner F]

Q : You have a slight decrease in the gross margin of System Services in Q3 compared with the same quarter of the previous fiscal year. May I ask the reasons? Is it due to a combination of projects? Or, is it attributable to an unprofitable project taking place in Q2 and continuing to undermine in Q3?

A : An unprofitable project occurred in Q2. We increased the provision by nearly ¥200 million in Q3. We have not seen any other specific factors to vary gross margin. Other factors remain in the range of quarterly fluctuations. The production period for the unprofitable project was postponed from a scheduled date in Q2. We increased the provision in Q3 to make up for the costs. We think that we made provisions for all costs that we expect. Although we are not allowed to tell an exact production period with our customer kept in mind, we think that we will have a production by Q3 of the next fiscal year.

Q : There is not a big increase in the workforce. May I ask about turnover and replacement? I would like to know if you have been able to employ young mid-career employees, and if you have no issues about future workforce.

A : Employees of age groups constituting a large share of our workforce will reach retirement age in three to four years. We have established a system to enable them to be employed up to age 65 after retirement, and continue to work up to age 70 as "senior experts". Having said that, not all of them utilize the system. We have seen half of them leave after retirement without choosing to stay. On the other hand, we have strengthened the hiring of new graduates and mid-career employees, and thus the workforce continues to be at the same level overall. Employing new graduates and mid-career workers has been progressing better than we expected. We expect to employ approx.260 new graduates for the next fiscal year. We employed 200 or more work-ready mid-career workers in the previous fiscal year. We do not have significant issues about our workforce.

(Note)

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