BIPROGY Inc.
Briefing Session on the Results for the Fiscal Year Ended March 2024
and Management Policies (2024-2026)
held on April 30, 2024

Principal Questions and Answers

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

[Questioner A]

Q : Your operating profit of the fiscal year ending March 2024 fell below your prediction when you announced your Q3 performance. You cited as the reasons goodwill impairment related to your group company and loss on liquidation of business of your affiliated company. May I have details?

A : We posted an impairment related to goodwill of our subsidiary abroad, and also a loss on withdrawal from business of our affiliated company related to real estate tech. These are transient expenses. We had expected some at the time of settling accounts of Q3. However, the actual expenses were slightly more than our expectations. The loss on withdrawal from business caused us to post “share of loss of investments accounted for using equity method” in Q4. This is due to the company being an equity-method affiliate. Thus, we posted an ordinary loss as well as an allowance for the loss on withdrawal from business. For your reference, Canal Payment Service, Ltd. (equity-method affiliate) continues to show good performance.

Q : There is a description in your management policies, saying "conduct share repurchases while monitoring total payout ratio”. May I know your intentions?

A : We used to provide a dividend payout ratio as the only indicator for our shareholder return the situations of our growth investment in the future. We conveyed our intention to slightly change our shareholder return policy partly through the use of words such as total payout ratio.

Q : You refer to your business strategies in the global arena in the Management Policies. You describe, “Strengthen approaches for North America and other markets“.May I know how serious you are in your entering North America? I would like to know your true intention.

A : We have created our business base partly through implementing M&As in some ASEAN countries. I think that expanding the business base is the first step for our global business strategies described in the Management Policies (2024-2026). We have been performing businesses for our customers in Japan. At the same time, we have kept fintech companies and companies providing retail services in the US on our radar. We do not think that we will have a major M&A soon in North America. However, if we find companies that will be conducive to our delivering more valuable services, we would like to consider M&A. We will continue to strengthen VC investments and we will acquire various assets.

[Questioner B]

Q : You referred to stock buybacks. You do not specify amounts. Is that attributable to your expecting financial institutions, etc. that hold BIPROGY shares to dispose of BIPROGY shares?

A : There are companies that implement a stock repurchase as a way for dissolving cross shareholdings and use the stock repurchase as part of their shareholder returns. However, we see an increase in the ability to generate cash, and thus we would like to use cash first for investments in growth. We will increase shareholder returns in accordance with the situations of growth investment, and we will consider stock repurchases as part of the method for strengthening shareholder returns.

Q : Please let me know your thoughts on the treasury stock.

A : We have had internal deliberations on the treasury stock on a continuing basis. We think that if we use the treasury stock we need to generate value equivalent to or greater than it. Therefore, we have continuously retained the treasury stock for the past seven years without opportunities. We are aware of the necessity to hold deliberations on cancelling the treasury stock in the future in light of shareholder returns. We will make an announcement on specific timings appropriately in a case of cancelling the treasury stock.

Q : I assume that you take M&A into consideration in order to increase your revenue abroad. May I ask how much investments you will make in M&As and how much contributions you expect from the M&A investments?

A : We expect to increase revenue abroad from ¥2.4 billion in the fiscal year ending March 2024 to ¥15.0 billion in three years. Although we expect an increase in the businesses that we have already implemented in Asia, we assume a sales increase to be enabled mainly through M&A. There are M&A projects that we have launched with specific pipelines. We would like to implement M&As in the fiscal year ending March 2025. However, we do not expect M&As of a significant amount all of a sudden. We will divide a process of M&A into a few stages and perform M&A cautiously and also boldly. We have reflected M&As in the plan of the fiscal year ending March 2025. We do not expect M&As to make a big impact in this fiscal year alone. We aim for M&As becoming conducive to enabling an increase in revenue in the third fiscal year of the Management Policies.

[Questioner C]

Q : You had a small increase in the revenue of system services in Q4 of the fiscal year ending March 2024. May I ask why?

A : The revenue in Q4 shows an increase of 0.2% compared with the same quarter of the previous fiscal year. The appearance may give you an impression of a small growth. However, we have seen good pipeline situations, and thus we do not think that we suffer any decrease in momentum.

Also, we have seen some large-scale projects having entered the testing phase. Sales in the testing phase tend to be smaller than in the developing phase. This is part of the reasons why the revenue increase is smaller on a year-over-year basis.

Q : You said in the Management Policies that you aim at an adjusted operating margin of 11% in the fiscal year ending March 2027. Having said that, you expect an adjusted operating margin of 9.1% in the fiscal year ending March 2025 at the same level as the previous fiscal year. May I ask how we should read your prediction for the fiscal year ending March 2025? Also, please let me know your thoughts about an adjusted operating margin in the next fiscal year and the fiscal year after the next fiscal year?

A : We are prepared to have an increase in SG&A expenses in the fiscal year ending March 2025 attributable to a new personnel system, a medium and long-term facility plan, and a postponed renewal of core systems. We think that the factors for driving up SG&A expenses will be settled in one or two years, and will have no impacts on the fiscal year ending March 2027, the final fiscal year. In this regard, we expect an adjusted operating margin to increase gradually in the first fiscal year and the second fiscal year of the Management Policies. We plan to see an improved adjusted operating margin in the third fiscal year. This increase will be also attributable to an increase mainly in the businesses of the focus areas of core businesses

Q : Your description reads, "Aim to become a 1-trillion-yen corporate group". May I ask if you keep a 1-trillion-yen market capitalization in mind?

A : We aim to double the current market capitalization. We aim to achieve by 2030 rather than in the three years. This external message is also important as an internal message. We dared to use this expression in order to encourage all group employees to achieve an increase in our corporate value with an awareness of stock prices in mind.

[Questioner D]

Q : Your actual ROE is 16.5% for the fiscal year ending March 2024. And, you aim for ROE of 15.0%, as planned in the Management Policies, below the actual value. May I ask what you intend to say?

A : We achieved the record net income for the fiscal year ending March 2024, with ROE at a high level. Basically speaking, we do not think about pursuing ROE by reducing net assets. We will strengthen shareholder returns, and at the same time we will accumulate earnings. We will take a natural approach in light of ROE management. However, we have set ROE as a business indicator, as well, due to our awareness of equity spread.

Q : You mentioned that the system services pipeline situations are good. May I ask what factors caused you to predict a slight increase in the system services revenue in the fiscal year ending March 2025?

A : We have seen a very strong pipeline in the focus areas of our core businesses, as mentioned in the Management Policies. Specifically, there is an increase in the customers in the retail industry as well as those interested in fintech in the financial industry such as regional banks and shinkin banks. Having said that, we must be aware of quality that may be compromised if our entire system engineering workforce composed of our own system engineers and subcontractors is outweighed. Thus, we will promote businesses in the focus areas of our core businesses with the need for striking a balance kept in mind.

Q : May I ask about the situations of an unprofitable project that occurred in the fiscal year ending

March 2024? It seems that you have reflected risks of unprofitable project into your plan for the fiscal year ending March 2025. Do I correctly assume that you are prepared to see this project continuing to be unprofitable?

A : We see that we are getting through the hardest time of the project that became unprofitable in the fiscal year ending March 2024. We have reflected into the plan for the fiscal year ending March 2025 risks in an event where an unprofitable project takes place, not of this project.

Q : You posted an increase in the outsourcing gross profit in Q4 of the fiscal year ending March 2024.I would like to know what factors enabled the increase.

A : We need to continuously invest in services businesses and increase the competitiveness. Therefore, we have been making an up-front investment in the services such as OptBAE and BankVision. In this Q4, services entailed in the phase of initial implementation of the services were accumulated. As a result, the gross margin was improved. We think that it is necessary to improve the gross margin through providing to many customers managed services as well in conjunction with cloud services, rather than providing cloud services alone, in the future.

[Questioner E]

Q : I would like to know what "Pay raise and introduction of new personnel system" means. It is one of the factors that drove up SG&A expenses in the fiscal year ending March 2025.

A : We have revised our personnel system in April 2024. The new personnel system is based upon performance, not seniority. It is a clear and explicit system. We completely got rid of allowances attributable to personal factors such as the number of family members and housing. We now add the funds onto the basic salary. In addition, we implement regular salary increases and basic salary increases. As a result, we increase pay by 8% compared with the previous fiscal year. In this regard, we expect an increase of JPY 1.0 billion in SG&A expenses. This will make an impact equivalent to or greater than this amount on cost of sales. We will absorb this impact by surely passing on to prices or improving productivity.

Q : I would like to know what "Postponing renewal of core systems" means. It is one of the factors that increased SG&A expenses in the fiscal year ending March 2025.

A : We had worked on migrating internal old core systems. We encountered with problems in the final testing phase in and after December. Recently, we have seen other companies suffering significant damages on their actual businesses in conjunction with migrating their core systems. We made a comprehensive adjudication partly in light of impacts on end users as well as our related departments. We thought that it is not good to force the operation and decided to postpone the operation.

Q : I would like to know the quantity and amount of unprofitable projects that you posted in the fiscal year ending March 2024, as well as your predictions in the future.

A : There is not a new unprofitable project. We recorded allowance of JPY0.2 billion additionally in Q4 for the existing unprofitable project (JPY0.8 billion on a full-year basis). The system is scheduled to begin production operations in October 2024. We have recorded allowances for costs to be incurred up to the launch.

[Questioner F]

Q : I would like to know the operating ratio of system engineers in Q4 of the fiscal year ending March 2024 and on a full-year basis.

A : It was 84% for Q4 and also on a full-year basis.

Q : May I ask what caused a small increase in the system services revenue in the fiscal year ending March 2025? In addition, I would like to know the situations about an increase in unit prices (through your price hike attempts).

A : It is partly due to our predicting system services revenue conservatively. Also, there is a fact that we are not in a position to raise prices in the middle of a project for which we have already executed a contract with customers. We will ask customers to accept price hikes about projects if it is before we receive orders. On the other hand, we need to make strenuous efforts on price hikes about on-going projects and maintenance services. We will work on negotiations carefully with our customers of all business sectors.

We will make relentless efforts through our operations in order to ensure that we will not be at a disadvantage.

Q : I assume that you have passed costs onto prices in the past. Is it high in light of difficulty level?

A : We think that it is significantly high in light of difficulty degree. Our customers check prices for each project. They compare us with our rival companies when they think about new projects. We are calculating appropriate prices when we make proposals to customers. We are not in a position to reflect an increase in personnel costs as it is onto our proposal prices. However, revenue will be significantly compromised if the increase in personnel costs is left as it is. We will carefully take measures and make tireless efforts in this regard.