baudroie inc.

Financial Results Briefing for the Fiscal Year Ended February 2025

April 16, 2025

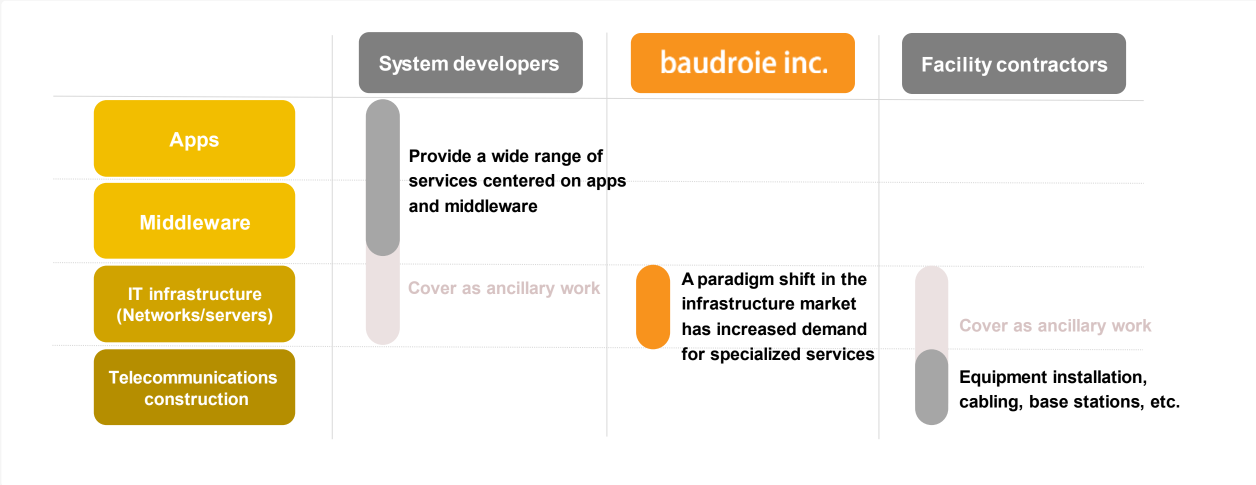
[Speaker]

President and CEO, Shigehiro Tominaga

MC : Thank you for your continued support. We would now like to begin the financial results briefing for the fiscal year ended February 2025. We sincerely appreciate your participation in this briefing despite your busy schedule.
Now, I would like to invite our President and CEO, Shigehiro Tominaga, to report on the financial results.

What Differentiates Us from System Developers and Facilities Contractors

Due to diversifying social needs, IT systems command advanced knowledge and technologies in broader and deeper areas. As the era evolves in this way, attention is being paid to IT system companies with distinctive features, not covering the entire system. Given this trend, we differentiate ourselves as a company specializing in IT infrastructure.

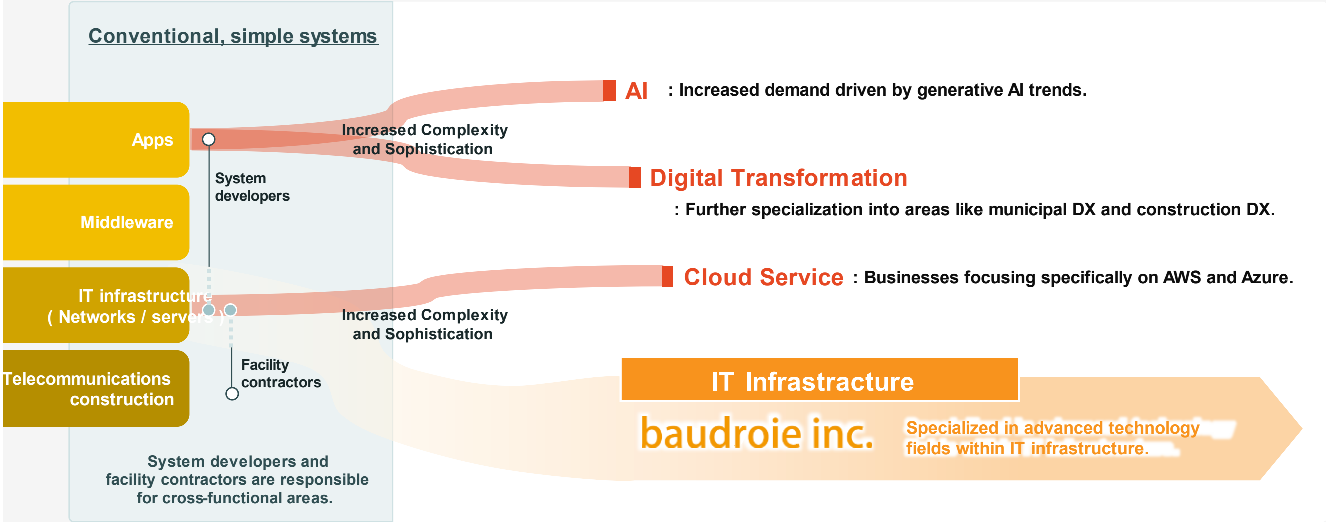


*Apps (applications): refer to such programs as mission -critical systems (for enterprise resource planning), programs operated by users such as web and smartphone applications, groupware (like Microsoft Office 365), and AI and machine learning. These programs are developed using programming languages like Java, C, and Python.
*Middleware: refers to software that runs between applications and the operating system and includes Oracle Database, WebLogic, and Apache HTTP Server.
*Telecommunications construction: LAN wiring, construction of base station facilities, equipment installation, etc.

Tominaga : Thank you very much for taking the time to join us today.
To begin with, I will briefly explain the overview of our company's business.
While it might be common overseas for user companies to employ their own system engineers and build systems in-house, in Japan, it is common to outsource system construction.
In Japan, outsourcing of systems has typically been handled by companies known as system integrators.

Specialized Systems Companies

Due to the diversification of societal demands for IT, technologies in various IT fields have become more complex and advanced.
System companies specialized in each field have been gaining increasing attention.



Of course, there are still many active system integrators today. However, in recent years, as systems have become more complex, specialized boutique-type system companies have emerged.
To give you an image, system integrators, in a sense, handle the entire system, so they are like general hospitals. In the past, when there were no difficult diseases, there was no need to write a referral letter to a specialist for things like colds or fractures, and any general hospital would accept such cases.

Subsequently, as systems became more complex, the equivalent of slightly difficult diseases began to appear. Instead of general hospitals, boutique-type system companies that resemble specialists emerged.
Even looking at the stock market, rather than system integrators doing everything widely, companies specializing in certain fields, such as companies focusing on AI or digital transformation (DX), have appeared.
More specifically, there are companies dealing in very narrow specialized fields like local government DX or construction DX.

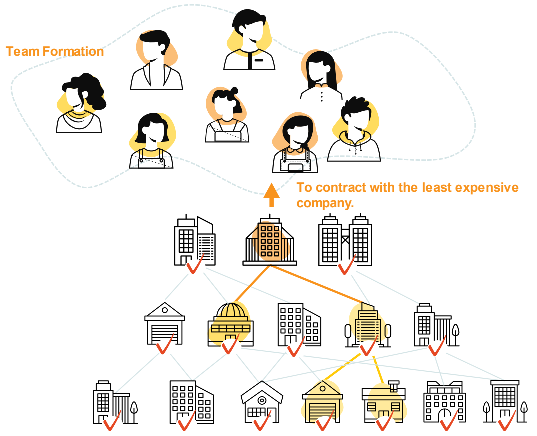
Since our inception, we have been focusing on IT infrastructure. Over the past 7 or 8 years, IT infrastructure has also become more complex, which has highlighted our expertise in this area.
However, it is not an extreme case where only our company can handle this IT infrastructure field.
For instance, as with the previously mentioned local government DX or AI-focused companies, there are certainly cases where system integrators can handle the projects by collaborating with other companies.

Our Competitive Advantage

A typical case of team formation in general system companies.

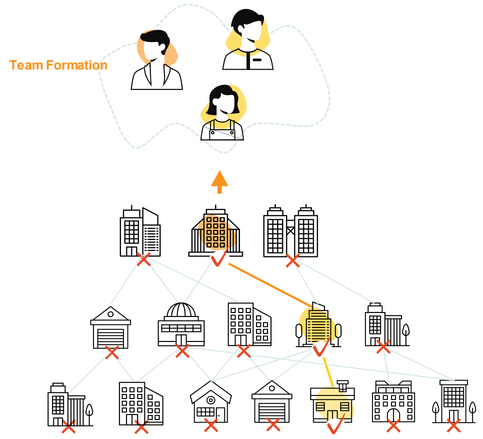
A system based on conventional technology

Since many companies have engineers, it is easier to gather people.
→ The project will involve hiring the most affordable company, resulting in a team composed of multiple firms.



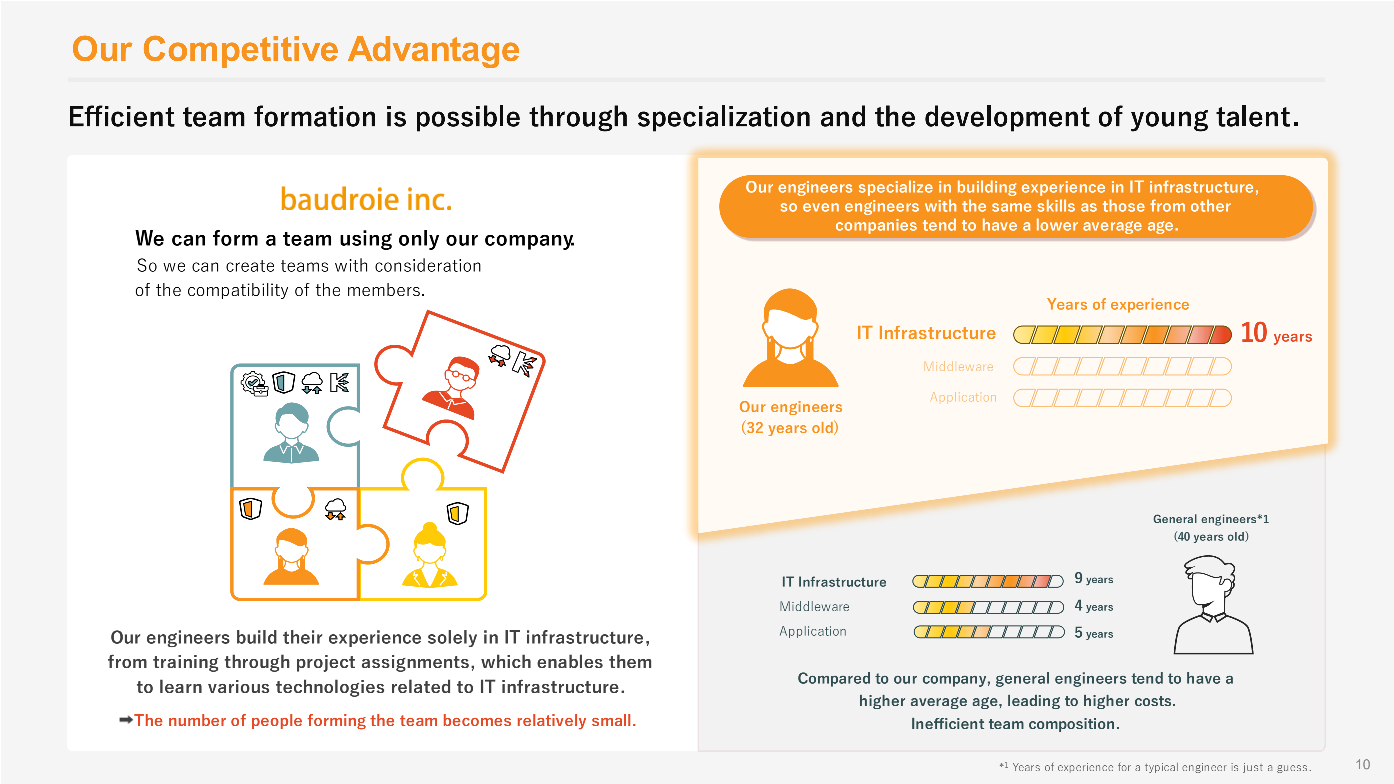
A system incorporating advanced technology

Since there are few engineers with advanced technical skills, the difficulty of gathering people and forming a team increases.
→The rarer the skills, the more time and cost it takes to form a team.



The same goes for the IT infrastructure field; it is not to say that only our company is capable. Referring to the diagram on the left side of this page, the type of work typically handled by general system companies tends to be versatile, meaning that many companies are capable of handling it and there is a large pool of engineers available. As a result, such work can be offered by almost any company, and clients tend to choose the one that offers the lowest cost.

However, one aspect that makes things slightly confusing is Japan's labor shortage, leading to a multilayered work structure like the construction industry. It becomes more about combining teams of multiple companies due to the lack of manpower rather than the difficulty of the project itself.
This creates a structure not often seen in the financial industry. In general, in the financial industry, it typically follows the form on the right side of the diagram.
For example, in the financial industry, teams are often assembled as shown in the diagram on the right—choosing a company based on its specific expertise, such as selecting one that specializes in IFRS or another that excels in valuing preferred shares. Similarly, projects involving advanced IT technologies are also more aligned with the right side of the diagram rather than the left, requiring the assembly of rare and highly specialized talent, which increases the level of difficulty.



Nevertheless, because our company has been exclusively engaged in IT infrastructure work since its establishment, we can form a team using only our internal personnel.
Furthermore, when general system companies collaborate to form a team, the broad business scope of such companies results in general engineers having their years of experience assessed based on parameters like those in the bottom right of the diagram.

With our company, we hire new graduates, and from their initial training, they are focused solely on IT infrastructure.

Of the approximately 400 projects our company manages, all relate to IT infrastructure, allowing for rapid expertise development. When forming teams, our company can build them with an average age in their 30s, whereas general system companies might have a higher average age. There is a significant difference in this aspect.

Additionally, when forming teams, we don't just combine suitable members randomly but take into account team compatibility. We also consider factors such as whether two individuals work well together when forming a team. Furthermore, we can create smaller teams. For example, where a standard setup requires ten people, we can form a team with seven.

The reason for this is within IT infrastructure; if a project requires two technologies, such as SDN and load balancers, other companies might need two separate people. However, our engineers, through the second project, might have experience with SDN and, by the third, with load balancers, making their capabilities 2-in-1. As a result, we can form slightly smaller teams.

Executive Summary

FY2025 Full-year Results

Revenue

11.65 billion yen

(up **58.9**% YoY)

Operating profit

2.46 billion yen

(up **55.2**% YoY)

√ **While keeping both our profit forecast and the market consensus in mind, we proceeded with upfront investments, especially by strengthening recruitment.**

√ **FunClock Inc. and actias Inc. were acquired as subsidiaries.**

When actias Inc. was consolidated, the full-year forecast was revised upwards, but the actual results exceeded the revised forecast.
Operational transfers to each subsidiary are proceeding smoothly, while we continue to closely track performance indicators.

FY2026 Full-year Forecast

Revenue

15.5 billion yen

(up **33.1**% YoY)

Operating profit

3.25 billion yen

(up **32.1**% YoY)

√ **Changed listing to the Prime Market (3/10)**

Preparations toward sustained high growth from FY2026 onward are well underway, and continued strong performance is targeted following the change of listing.

√ **Initiation of dividends**

Refer to pages 18–20 for details on our approach to dividends.

Although this was a quick overview, that concludes with the explanation of the company profile, and we will now proceed to the executive summary.

Sales increased by 58% compared to the previous period, and operating profit increased by 55%. As mentioned previously, while keeping in mind both the full year earnings forecast and market consensus, we used the available margin to enhance recruitment efforts. We hired 49 more people than initially planned. Additionally, we have recorded listing-related costs that were not included in the initial budget. Because of the considering inclusion in the new TOPIX, we slightly advanced sales, allowing us to incur costs that were not originally anticipated.

We are also transferring the projects to a subsidiary while being mindful of profit fluctuations. We actively share technology with the subsidiaries, and while absorbing these costs, we have landed this performance.

On March 10, we transitioned to the prime market and will begin paying dividends from this term. This will be explained later.

For this term's forecast, revenue is expected to increase by 33%, and operating profit by 32%. Continued growth is anticipated.

Summary of Consolidated Financial Results

✓ **In FY2025, FunClock Inc. was consolidated from Q1, and actias Inc. was consolidated from Q2.**

*Adjustment from Japanese GAAP to IFRS figures.

(Thousands of yen)	FY2024 Full-year Results*	FY2025 Full-year Results	YoY (First half-year)	FY2025 Full-year Forecast (Revised)	YoY (Full year)
Revenue	7,330,186	11,649,705	+58.9%	11,400,000	+55.5%
Operating profit	1,585,945	2,460,813	+55.2%	2,300,000	+45.0%
Profit before tax	1,574,727	2,461,226	+56.3%	2,302,000	+46.2%
Profit	1,161,035	1,799,365	+55.0%	1,644,000	+41.6%

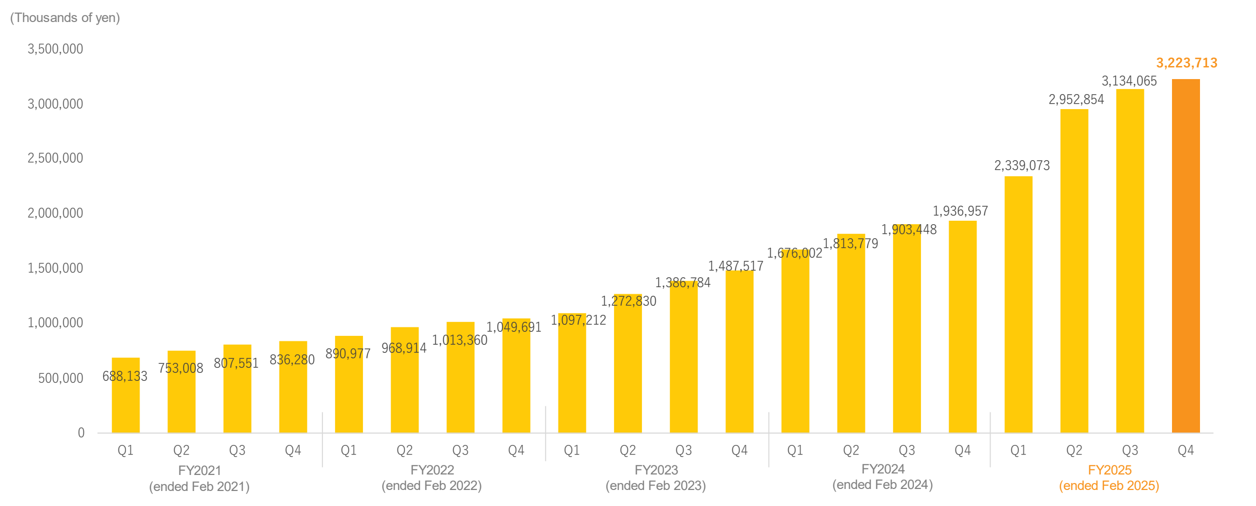
This table compares each stage's profit with the previous year, and you can see the growth. In the fiscal year ending February 2025, we made an upward revision for the first time since listing. This is the first time we've revised the full-year performance forecast.

Due to an M&A transaction resulting in revenue reaching the 10% threshold for revision, we made an upward revision to our revenue forecast and, at the same time, also revised our profit forecast accordingly.
Originally, the sales and operating profit forecast was an increase of 30% compared to the previous period, so compared to that, it can be said that this performance greatly exceeds expectations.

Trends in Quarterly Consolidated Revenue

✓ **As before, an increasingly larger proportion of sales is projected in the remaining quarters of FY2025 for the following reasons.**

- **The number of acceptance inspections will further rise in Q2 through the end of the fiscal year.**
- **With engineers (new graduate employees in the second or more year of employment) becoming capable of conducting actual work, reassignment of specialized talents (new graduate employees in the third or more year of employment) and highly specialized talents will be conducted in Q2 through the end of the fiscal year.**



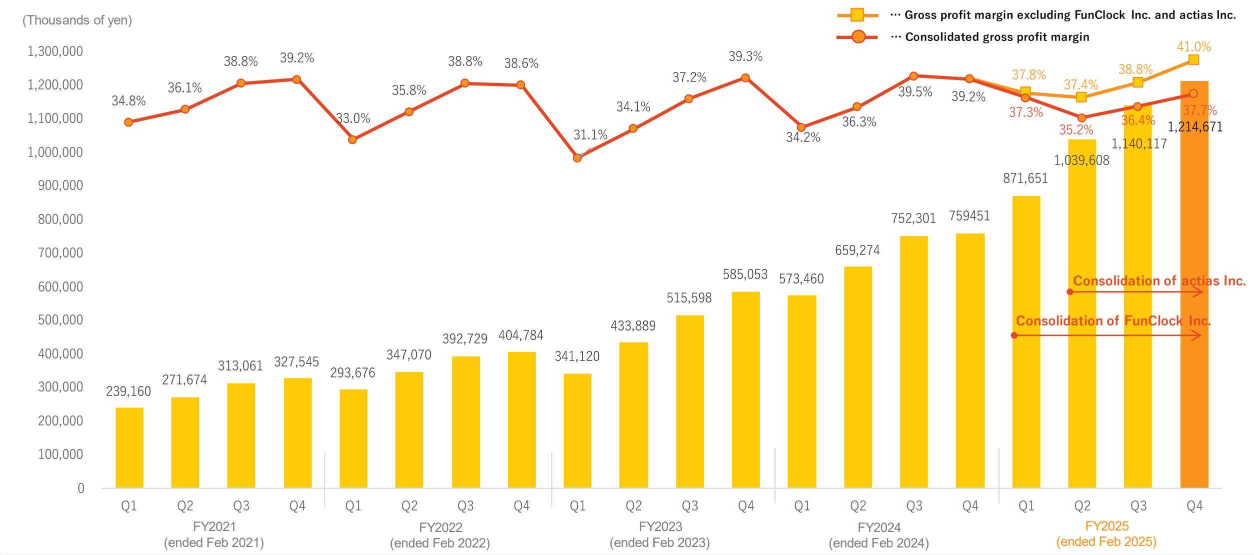
This shows the quarterly sales trend. Our revenue tends to increase gradually with each passing quarter. Briefly explained, one reason is project acceptance inspections. While we have many cases inspected like stocks every month, there are also cases based on completion and delivery, with more inspections in the second half.

Another factor is our internal policy on job rearrangement. The company focuses on recruiting new graduates, assigns them to projects in their first year as part of the OJT period, and from around April of their second year, they gradually take over their seniors' work. As seniors gradually become free for about 0.3 person-months, this space is filled with new projects, leading to a second-half bias. Therefore, sales are expected to gradually increase quarter by quarter this fiscal year as well.

Trends in Quarterly Consolidated Gross Profit

✓ **Excluding the two companies acquired this fiscal year (FunClock Inc. and actias Inc.), the gross profit margin increased compared to the previous fiscal year.**

➡ **Although there were factors that could have put downward pressure on the gross profit margin —such as project transfers to subsidiaries and increased recruitment efforts—the margin has shown an upward trend, reflecting improved competitive advantage.**

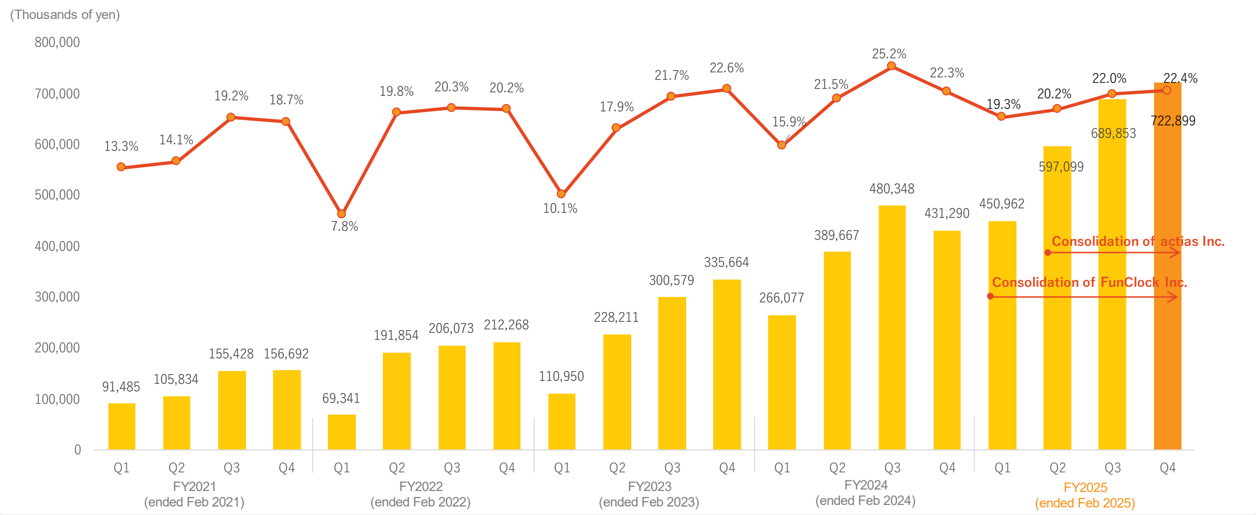


Next, regarding the gross profit margin, although it seems to have decreased compared to last year, excluding the two companies acquired through M&A this term, the gross profit margin would show no discomfort.

Included in this are the personnel costs for hiring 50 more people than planned, which are accounted for as costs from their first day of joining. In addition, there are impacts from transferring projects to subsidiaries. While our company's sales move to the subsidiary, only our company’s costs remain as expenses. With projects transfers, there are cases where 15 to 20 people of our talents require a year of person-months, which is a factor that lowers the gross profit margin. Even so, the fourth quarter has a higher gross profit margin than last year, offsetting negative factors because of increased competitive advantage.

Trends in Quarterly Consolidated Operating Profit

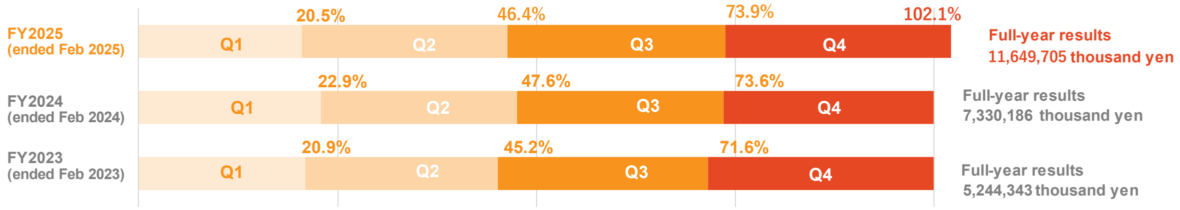
- ✓ As a result of strengthening recruitment to maintain a high growth rate in the coming fiscal years, the net increase in the number of employees exceeded the initial plan by 49 people.
- ✓ Because the offering was moved up to the current fiscal year, a portion of the listing expenses that were originally planned for the next fiscal year was recorded this year. However, we have continued to grow while absorbing those costs.



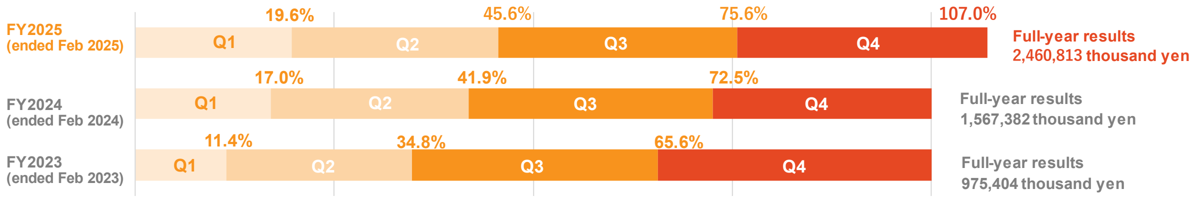
Next is the trend in operating profit. A portion of listing-related costs, approximately 25 million yen, were recorded in the second half of the year, and some will continue this term. Additionally, recruitment costs alone come to around 20 million yen in the fourth quarter, which was not part of the plan but increased as selling, general, and administrative expenses.

Status of Progress Against the Full -Year Consolidated Earnings Forecast

Revenue



Operating profit



This shows the progress of revenue and profits at different stages. You can see quarterly progress clearly.
Without any investments, sales and profits tend to be weighted toward the second half.
Especially for profits, it clearly increases in the order of 1Q,2Q,3Q and 4Q.

FY2026 Full-year Earnings Forecast

- ✓ The objective is to maintain high growth with a growth rate above30% moving forward.
- ✓ We had previously stated that we would consider dividends upon transitioning to the Prime Market; accordingly, we are starting dividend payments from FY2026.

(Thousands of yen)	FY2025 Full-year Results	FY2026 Full-year Forecast	YoY
Revenue	11,649,705	15,500,000	+33.1%
Operating profit	2,460,813	3,250,000	+32.1%
Profit before tax	2,461,226	3,234,890	+31.4%
Profit	1,799,365	2,345,295	+30.3%

Dividend Forecast

Purpose

The purpose is not shareholder returns, but rather to encourage investment from investors who focus solely on dividend -paying companies, thereby broadening our investor base.

By transitioning from no dividends to dividend payments, there is a possibility of reduced volatility, and we are optimistic about the potential impact of this effect.

Dividend Payout Ratio	10%
Annual Dividend	15.16 yen

This is the performance forecast for this term. What we've always conveyed is that we constantly envision a 30% growth in operating profit and its continuity. While we also focus on sales, we especially emphasize the growth rate of operating profit.

For example, if there is a 69% profit growth in one year and 0% in the following, resulting in a two-year CAGR of 30%, that is not ideal for us. Even if the growth rate that year is 69%, we anticipate resetting it to zero the next year and continuing over 30% growth in subsequent years. Therefore, continuity is something we highly value.

Thus, our past high growth is not regarded as the result of accumulated savings. Rather, we plan proactively to consistently achieve 30% growth each period. Since our IPO, the original mid-term management plan has undergone approximately three updates, culminating in the currently announced version. From the time of the first update, we have continued to aim for over 30% growth based on that baseline.

We often ramp up hiring or envision the future state of the company several years ahead, particularly in the context of M&A, and plan backward to realize that vision.

In addition, beginning this fiscal year, we will start paying dividends. There are two main purposes for initiating dividends. The first is to broaden our investor base. Some investors exclusively invest in dividend-paying companies, so shifting from a no-dividend to a dividend-paying policy helps attract such investors.

The second purpose is that initiating dividends can potentially reduce stock price volatility.

Approach to Dividends

✓ **According to the following materials, it appears that transitioning from no dividend paying to dividend paying may lead to a decrease in volatility.**

The Effect of Dividends on Volatility

	Number of companies	90-day volatility median	Dividend payout ratio median
Group 1 total (The highest dividend payout ratio)	303	21.24	101.2%
Group 2 total	303	22.84	56.8%
Group 3 total	303	23.80	46.1%
Group 4 total	303	24.63	39.5%
Group 5 total	303	24.78	34.4%
Group 6 total	303	27.25	30.6%
Group 7 total	304	25.11	27.2%
Group 8 total	304	26.49	22.8%
Group 9 total	304	26.75	18.1%
Group 10 total (The lowest dividend payout ratio)	304	29.33	10.6%
The total number of companies with a positive dividend payout ratio	3034	25.07	32.2%
Non-dividend paying companies	721	45.66	0.0%
The total number of companies with a negative dividend payout ratio	181	26.40	-25.4%

The difference in value is the largest when transitioning from no dividends to dividend payments.

* Reference: Data from Nezu Asia Capital Limited's report as of December 2024.

This document shows the volatility of dividend-paying companies, with the far right indicating the payout ratio and the middle column showing 90-day volatility. It groups companies and shows a chart of how much volatility exists among companies paying different levels of dividends.

At the very bottom, the volatility of non-dividend companies is recorded. As you can see, moving one step from non-dividend to 10% dividend significantly changes volatility.

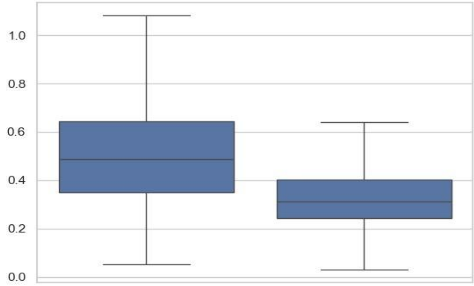
Increasing the payout ratio tends to reduce volatility, but the highest rate of change happens when transitioning from no dividends to dividends. However, whether dividends truly cause reduced volatility remains unclear. A quick thought might suggest that companies paying dividends are more mature, thus having lower volatility.

Approach to Dividends

- ✓ There is a tendency for stock price volatility to decrease when a company transitions from being non-dividend-paying to dividend-paying.
- ✓ Accordingly, we are initiating dividend payments not primarily as a means of shareholder returns, but as a management initiative with an awareness of the capital markets.

Comparison of non-dividend-paying and dividend-paying companies

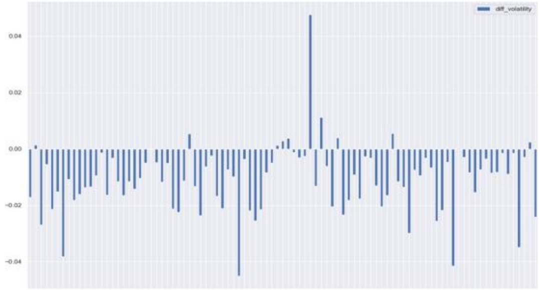
Dividend-paying stocks tend to have lower volatility.



* Daily volatility (annualized) was calculated for the 250 trading days following the forecast dividend announcement date, and aggregated separately for non-dividend and dividend-paying stocks. The analysis covers the period from 2009 to 2024. In the chart, the black line in the center represents the average, while the other lines indicate the maximum, minimum, and quartile values.

The relationship between dividend initiation and stock price volatility

After the initiation of dividends, approximately 90% of the stocks experienced a decrease in volatility.



* Among the non-dividend-paying stocks as of 2015, those that issued dividends five or more times by 2024 were selected. For each, the daily volatility (annualized) was calculated for the 250 trading days before and after the first dividend announcement, and the difference was computed. The results were sorted by stock code.

20

To further explore this aspect, we examined how volatility before and after companies transitioned from no dividends to dividends. The results compare the 250 days of volatility before and after the moment a company transitioned from no dividends to dividends. The graph on the right represents each stock. Starting from around 2015, the study examined companies that were non-dividend payers before becoming dividend payers, investigating the 250 days before and after the transition.

By subtracting the volatility immediately before dividends begin, it indicates a reduction in volatility if the measure is negative. About 90% of stocks saw volatility decline immediately after initiating dividends.

Despite this, it remains a question whether dividends are indeed causing volatility to decrease, or if it's due to companies' maturity, leading to lower volatility. Additionally, over the period from 2015 until now, other maintaining factors such as a stable market may play roles, making it difficult to decisively conclude, though dividends could potentially reduce volatility.

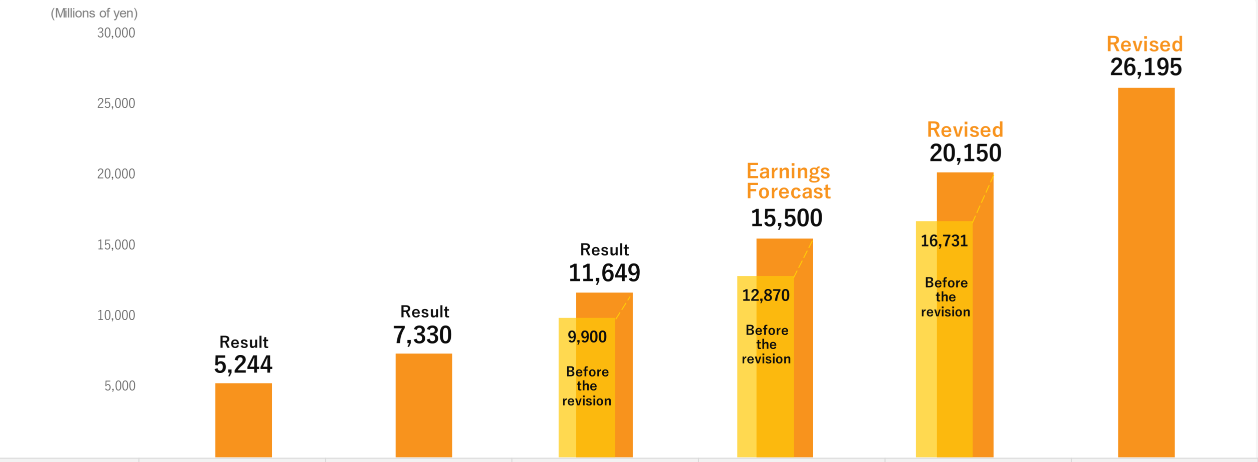
Further, though not examined this time, more comprehensive research could involve viewing less mature companies beginning dividends, the periods before and after for companies with consistent growth, and periods with a stable market to better understand the situation.

Hence, the main purpose behind the recent shift to dividends is not primarily shareholder returns but for the reasons explained.

We also plan to gradually increase our dividend payout ratio going forward. As shareholder returns become a more prominent aspect of our strategy, we will share our thoughts on dividends and our dividend policy accordingly.

Medium-Term Business Plan: Revenue

✓ This plan has been exceeding the targets established in the previous fiscal year and has been revised to extend through FY2028.



	FY2023 (ended Feb 2023)	FY2024 (ended Feb 2024)	FY2025 (ended Feb 2025)	FY2026 (ending Feb 2026)	FY2027 (ending Feb 2027)	FY2027 (ending Feb 2027)
Highly specialized Talents	135	165	223	295	380	470
Specialized Talents	247	334	408	505	690	1010

* Subsidiary personnel are expected to be included in the specialized talents from FY2026 by sharing our skills with those wh o wish to do. Therefore, it already reflects the approximate number of people.

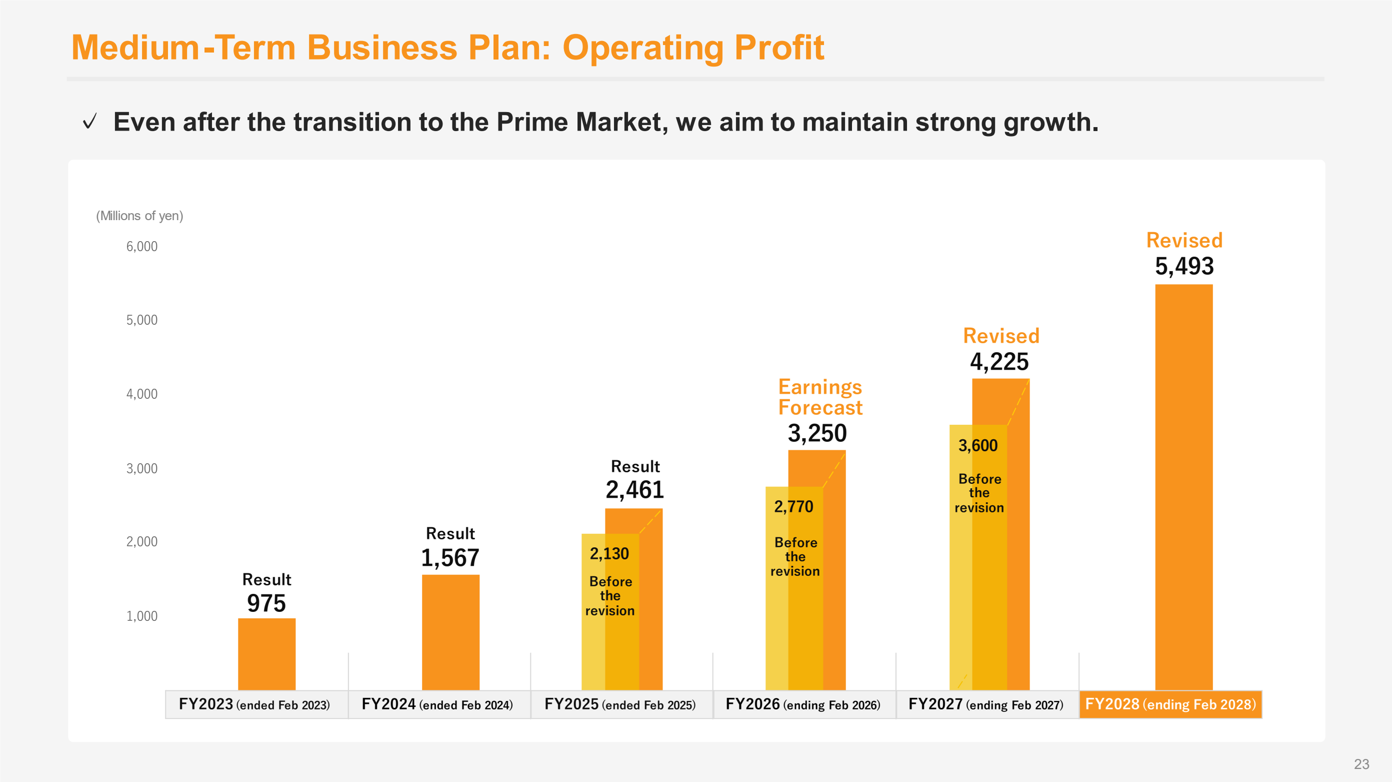
Next, we have a comparison between the medium-term management plan announced a year ago and the updated plan this time. As performance exceeded expectations over the past year, we have made updates.

The profit forecast for this term is about 32% growth, so for this term, we have set a revenue plan that aligns with this and includes a straightforward 30% growth, a figure we commonly use.

As I mentioned earlier, what we envision is high growth and continuity. A key focus here is on our goals of Specialized Talents and Highly Specialized Talents.
Of course, the performance of our company is driven by everyone in the company, but among them are members who play a central role in processing and acquiring projects.

We are planning for the next 30% growth — and the 30% growth after that — by working backward from our goals. The 49 additional hires we made last year beyond our original plan are expected to grow into specialized talent during the current fiscal year ending February 2027.

Furthermore, we share technology with companies we have acquired through M&A.
As a result, approximately 54 people from the acquired actias Inc. are expected to be counted as Specialized Talents by the February 2027 term. As the medium-term management plan continues to be updated, the target point three years from now will be set higher. Therefore, it is necessary to prepare for this starting several years in advance.



This is the medium-term management plan for operating profit. It is also a comparison between the profit from the medium-term management plan from one year ago and the updated figures for this term. Over the past year, we have exceeded expectations, so we have updated the plan accordingly.

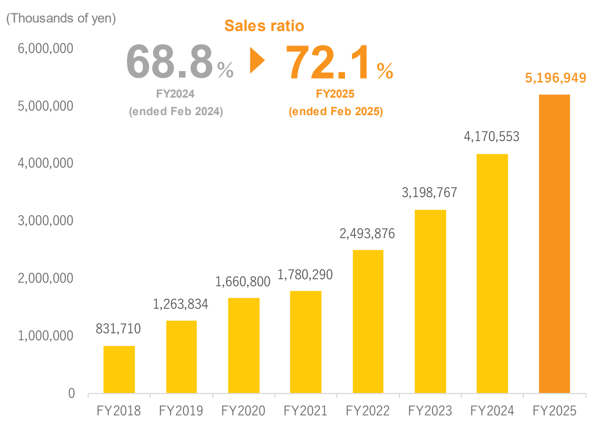
As a reiteration, we have updated our medium-term management plan about three times since our IPO. While it is important to exceed these plans, this medium-term management plan represents high growth and continuity for us. Of course, it is an expression within feasible probabilities.

Therefore, a previous year's growth rate of 69% followed by 0% the next year lacks continuity. Although it might sound modest, achieving 30% growth over two years is considered more valuable for our company.

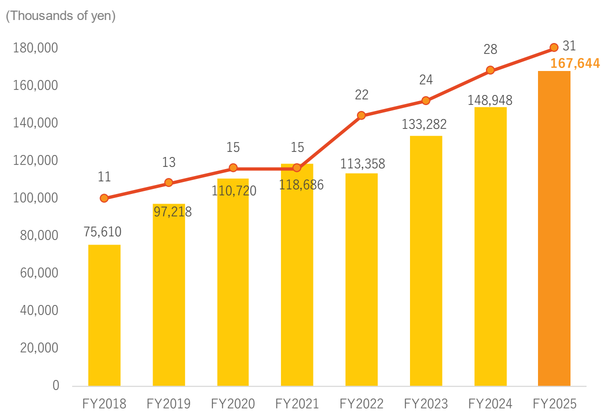
Sales to Enterprise Clients

✓ **Both combined sales and average sales grew strongly, as selective order receptions to prioritize projects for more promising enterprise clients were smoothly conducted.**
✓ **Focus on increasing average sales per company and total sales percentage.**

Total sales to enterprise clients



Average sales per company and the number of enterprise clients



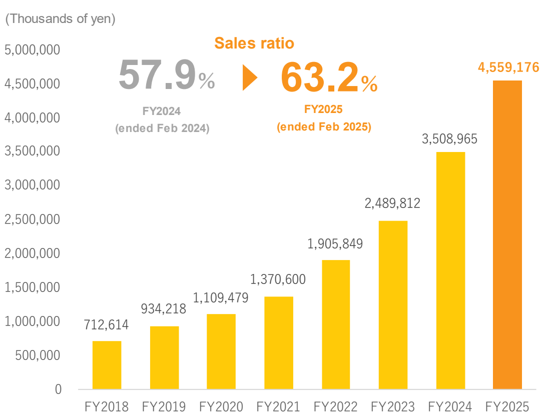
*Enterprise clients are defined as companies selected for either the Nikkei 225, Nikkei 400, or Nikkei 500, or companies with sales of 50 billion yen or more.

To explain some key points about our company, the first is the expansion and deepening of enterprise customers. Within our company, enterprise refers to large corporations. Since larger companies tend to have larger order amounts, we aim to increase this percentage, which is why the number of salespeople has significantly risen. We aim to bring the ratio of enterprise close to 100%.

Sales in Advanced Technology Areas

✓ **Sales ratio of advanced technology field is increasing due to selective orders.**

Sales trends
in the advanced technology areas



*Advanced technology areas: technology areas where we are deemed to have high specialty and that are related to any of the wireless, load balancer, SDN, cloud, security, or server virtualization technologies.

Advanced technology areas
expected to have high growth potential

	Forecasted market size	CAGR of the market	Our sales ratio ※6
Wireless (global market)	US$130.6 billion (2026)*1	15%	18% ↑1p
Load balancer (global market)	US$8.9 billion (2027)*2	13%	22% ↓1p
Network virtualization (domestic market)	Approx. ¥50 billion (2026) *3	3%	10% ↓1p
Cloud (domestic market)	¥4.3 trillion (2026) ※4	21%	26% ↓1p
Security (Domestic market: software, appliances)	¥531.7 billion (2026) *5	4%	18% ↑2p

*1 Source: "Global Wireless Connectivity Market" by BCC Research (provided by Global Information, Inc. as agent)
*2 Source: "Load Balancer Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast" by IMARC Services Private Limited (provided by Global Information, Inc. as agent)
*3 Source: Press release by IDC Japan, "Announcement of Domestic Network Virtualization/Automation Market and NFV Market Forecasts" (May 11, 2022)
*4 Source: Press release by IDC Japan, "Announcement of Domestic Public Cloud Service Market Forecast" (September 15, 2022)
*5 Source: Press release by IDC Japan, "Announcement of Latest Domestic Information Security Market Forecasts" (May 26, 2022)
*6 The changes in "our sales ratio" (indicated by arrows) show comparison with FY2024 results and include overlapping sales in two or more areas.

Another area is advanced technology fields. We refer to new technology fields, or more difficult technology fields, as advanced technology fields, and we wish to increase this ratio. The sales ratio has increased by about 5% compared to last year, reaching 63%.

The table on the right roughly shows which fields account for significant sales within our company. However, a cautionary point here is that actual systems are built by mixing different technology fields. Since multiple technologies are mixed, some sales are double counted. Examples include network virtualization or building load balancing within the cloud.

Development of Specialized and Highly Specialized Talent

- ✓ Develop highly specialized talents based on our education and training systems dedicated to IT infrastructure.
- ✓ The increase in the number of highly specialized talents are becoming larger as a result of intensified recruitment prior to the listing.

	Specialized talents	Highly specialized talents
FY2021 (ended Feb 2021)	122	97
FY2022 (ended Feb 2022)	174	109
FY2023 (ended Feb 2023)	247	135
FY2024 (ended Feb 2024)	334	165
FY2025 (ended Feb 2025)	**408**	**223**

*For the definition of specialized and highly specialized talents, refer to the Appendix.

The third point is the trend of specialized talents and highly specialized talents.
Currently, there are two categories, but in reality, there is a third category of employees behind these, imagined as first year to second year. Specialized Talents are generally those beyond their third year, and Highly Specialized Talents are generally those beyond their seventh year.
In actuality, we score based on classes and grades, grouping more finely. As you can see, Highly Specialized Talents used to increase by only about ten people. However, around the time just before the IPO, we strengthened recruitment, and many of those hired during that time are now reaching highly specialized talents.

Past M&A Results and Future M&As Utilizing Treasury Shares

Company Name	ZOSTEC Inc.	ALJOY Inc.	FunClock Inc.	actias Inc.
Business Description	Network and Server Integration	Network and Server Integration	Testing and Validation	Network and Server Integration
Revenue Operating Profit	224 million yen -8 million yen (At the time of acquisition)	389 million yen 6 million yen (At the time of acquisition)	1 billion yen 50 million yen (FY2023 ended in June)	1.7 billion yen -30 million yen (FY2024 ended in January)
Acquisition Date	April 2022	March 2023	March 2024	June 2024

Revenue and Operating Profit Trends of ZOSTEC and ALJOY (Combined Total for Both Companies)

	At the time of acquisition	FY2024 results (full-year)	FY2025 results (full-year)
Net sales	613,703 thousand yen	1,339,199 thousand yen	1,693,779 thousand yen
Operating profit	-2,136 thousand yen	135,273 thousand yen	236,001 thousand yen

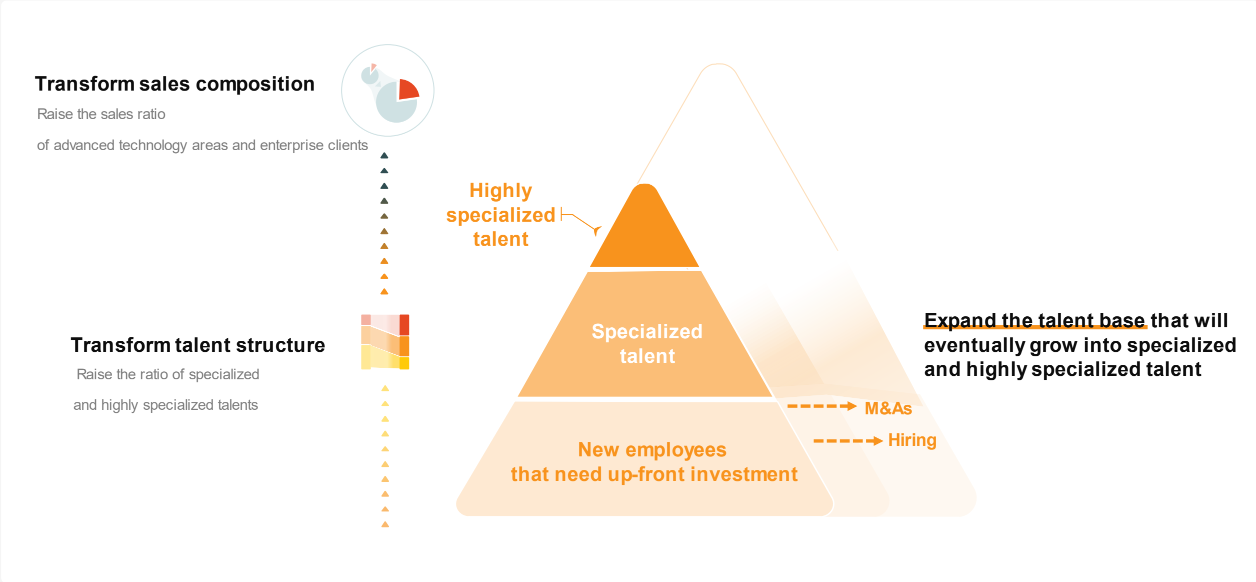
Post-merger integration (PMI) is sufficiently conducted even now, but we will achieve more effective PMI by using the following method.

Going forward, we will use part of our treasury shares to acquire companies. By retaining their ownership not only at the man agement team of the parent company but also at the management team of the acquired companies , we will build an organizational structure that can generate further added value.

Next, I will explain our past M&A achievements. Firstly, with four subsidiaries, only the two on the left are highlighted. While the combined left two subsidiaries were slightly operating at a loss, this term, two years later, they are showing a profit of roughly 230 million. It's not so much that the subsidiaries have dramatically transformed, but more that our sales and profits have shifted, though the subsidiaries have gained slight competitive advantages, mixing profits.

Illustrative Drawing of Our Strategy

Prepare for high growth to be achieved in FY2027 and onward.



This is a diagram that simply summarizes our strategic image into three components.

The first is the change in the mix of personnel composition. It is represented by the three orange colors in this triangle. Even without new hiring, the level of existing personnel constantly improves. Assuming no new hiring, this mix will level up each year.

The second point is the transformation of the sales composition at the top left. This is represented by the increase in the enterprise ratio and the share of advanced technology fields, which enhances our competitive advantage, shown by the height of this triangle.

Finally, the third point. To maintain high growth beyond the medium-term business plan, relying solely on this mix without new hiring will eventually reach a limit. Naturally, we will continue to hire future highly specialized talents and specialized talents each year. It is an image where the base or foundation of the triangle is rising to the right. We will also pursue mergers and acquisitions alongside this.

In the short term, M&A is beneficial because we are steadily conducting projects transfers. In the medium term, by sharing technology with subsidiaries and nurturing personnel, it becomes possible to achieve profit growth that could not have been attained solely through our own hiring.

Going forward, we plan to actively pursue M&A with companies that are either similar to us or those that are centered around younger personnel. As we are actually strong in development, we aim to proceed with an M&A strategy that combines this strength in nurturing to cultivate future Highly Specialized Talents and Specialized Talents.

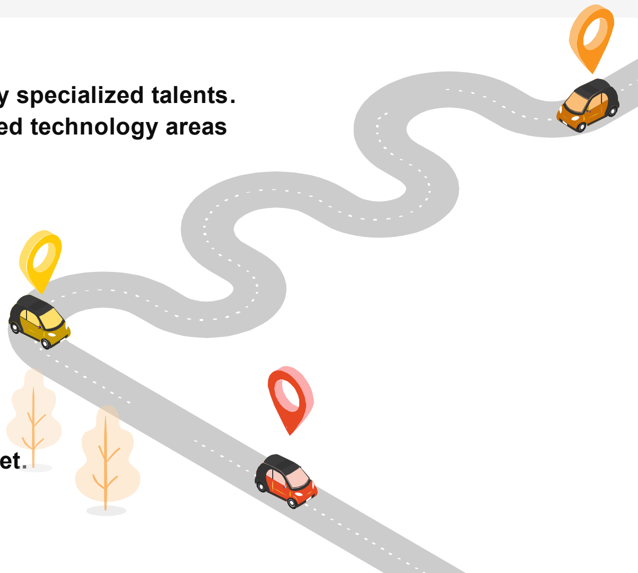
Summary of Highlights

Expand business in preparation for the planned transfer to the TSE Prime market.

01
- ✓ Raise the ratio of specialized and highly specialized talents.
- ✓ Expand and deepen projects in advanced technology areas and for enterprise clients.
- ✓ Conduct M&As.

02
- ✓ Maintain high growth rates.
- ✓ Implement the medium-term business plan.

03
- ✓ Plan to transfer to the TSE Prime market.
- ✓ Investigate implementation of the dividend policy.



Finally, this table contains information that we have recorded since shortly after our listing. We are of course continuing with number one and have also maintained the growth rate of number two while issuing and updating our medium-term business plan. We have now transitioned to the prime market for number three. Although our dividend policy has not yet been announced, we have reached the point of commencing dividends. In conclusion, it has been almost four years since our IPO.
We wish to continue growing together with our shareholders and look forward to your continued support.

Q&A Session

Tominaga : Now, we will move on to the Q&A session.

[Q] : Regarding the external environment and recession
[A] : We will explain the relationship between the recession, the Trump tariffs, and our company. Our company is primarily domestic in nature, and most of our clients are also domestic. We specialize in IT infrastructure within the IT sector. Our company has actually been in existence for a long time, and although at the time of establishment, no significant advantage was apparent, we have continued operating since the days of the Lehman Shock. During the Lehman Shock, of course, the Japanese economy as a whole was not doing well, but rather than our sector, it was mainly the IT development areas that were initially affected. IT infrastructure, similar to essential utilities like electricity and water, usually remains unaffected unless the recession is extremely severe, as was our experience during the Lehman Shock. Therefore, this time too, it depends primarily on the depth of the recession. Recessions typically reach Japan about half a year later, initially impacting development work, with subsequent minimal effects on IT infrastructure, occurring much later. Only if the recession is really strong might it affect us.

[Q] : It is mentioned that some listing-related costs have been accounted for, but how much remains?
[A] : Approximately 25 million yen in listing-related costs will be incurred in the first quarter of this fiscal year, with no additional costs thereafter.

[Q] : What are the basic principles of the M&A strategy and thoughts on PMI?
[A] : As for M&A, we are currently acquiring companies close to our domain. actias Inc. is a good example, where the business transfer and technology sharing are progressing well. As mentioned earlier, we anticipate that specialized talents will emerge from actias Inc. starting next fiscal year. Although the intensity, speed, and environment of growth differ from our company, it is gradually becoming meaningful.
In this regard, we think it is possible to acquire similar companies and reskill personnel at companies centered around younger members, which is why young-focused companies are also entering as M&A targets. These companies generally have more IT knowledge compared to inexperienced individuals in our company. However, regarding whether the growth intensity and probability exceed our company, that's not necessarily the case. For example, whereas 80% of our members grow in our company, even if only 40% grow in a subsidiary, it would still result in meaningful outcomes.

[Q] : Is M&A factored into the new medium-term business plan?
[A] : It is, of course, not included in this fiscal year. It is not included in the next fiscal year either. It is only slightly factored in at the end of the medium-term business plan period, towards the fiscal year ending February 2028. We have been conducting M&A annually since our IPO. Therefore, the personnel of subsidiaries are somewhat factored into the plan. The upward revision of 80 Specialized Talents planned for the fiscal year ending February 2027 was influenced by the increased hiring last fiscal year and the acquisition of Actias Inc. last fiscal year.

[Q] : I think the pricing changes by a few percent every year, but is this factored into the mid-term business plan's plan for a 30% increase?
[A] : Our company often likes to use the figure of 30%, and we have frequently communicated that we believe 30% growth is achievable since we became publicly listed. However, there have been changes in factors such as increased competitive advantage and pricing changes, as well as environmental shifts. Factors like environmental changes and M&A are not significantly considered in the mid-term business plans. Even if pricing is increased by 5%, the impact on sales is minimal, and the increase in pricing does not necessarily translate directly to profit. For example, this year we are using it for investments such as increasing hiring to continue over 30% growth in 2 to 3 years. In the previous term, we used costs while being mindful of market consensus.

[Q] : What are the factors behind the improvement in the gross margin rate excluding the M&A effect in the fourth quarter compared to the previous year?
[A] : This is due to the impact of raising prices. We have been transferring projects to a subsidiary, and over the past year, about 15 to 20 people monthly have been involved full-time as specialized talents and highly specialized talents. Additionally, with increased hiring, even though we have hired more than planned, we have absorbed that, resulting in a slight positive effect from the price increase compared to last year; that is the kind of image we have.

[Q] : How much profit are the two acquired companies generating?
[A] : The two companies we acquired originally had almost no profit when combined in their financial statements. Being unlisted, there were many wasteful expenses, and their adjusted profit was around 100 million yen for both companies combined. This has increased to approximately 400 million yen in the current term. The profit went from 100 million yen to 400 million yen. Much of this is due to the transfer of projects from our company and the subsidiaries' own growth. Our revenue has also moved to the subsidiaries, but we are now moving on to securing better projects, which will lead to a stage where our own company will grow again.

[Q] : In the midst of a challenging recruitment environment, why is your company able to hire?
[A] : Our company might have a slightly stronger ability to educate compared to other companies. While other companies may prefer to hire more science graduates, we hire from where we can. We also have a considerable number of liberal arts graduates. The difference between liberal arts and science is truly minor, so we hire both. With about three months of training, this difference can be bridged, so we focus more on criteria like character. Moreover, the level of the personnel we are hiring now appears to be higher than before. Therefore, even if it becomes difficult to hire due to external factors, we can develop talents and thus adjust our criteria as necessary. We hire from where we can.

[Q] : Will you maintain a dividend payout ratio of 10% during the mid-term management plan period?
[A] : Of course, we aim to raise the dividend payout ratio in the future. A payout ratio of 10% is low, and we do not consider it a sufficient form of shareholder return. We are initiating dividends as a result of our transition to the Prime Market. Additionally, as explained earlier, we have decided to issue dividends based on the two reasons previously mentioned. Going forward, we plan to announce a slightly higher dividend payout ratio with a stronger emphasis on shareholder return, so please wait a little longer for our official dividend policy. However, this does not mean that we will not announce a dividend policy during the mid-term management plan period — it simply means we cannot disclose the details at this time.

[Q] : Impact of generative AI
[A] : Basically, we believe there is no particular need to consider it. Our work cannot be completed by generative AI alone. For example, programming and writing source code fall into adjacent business areas that may be affected. However, in our case, we do not engage in writing source code, so there is no impact. That said, there is potential to create synergy. In the programming field, AI will write the source code, SEs will take the role of utilizing generative AI, and those who manage them will be project managers. However, when it comes to our infrastructure SEs, we believe the impact will be minimal.

[Q] : How should one perceive the growth of specialized talents and highly specialized Talents in relation to sales and profit growth?
[A] : Essentially, consider the growth in Specialized Talents and Highly specialized Talents as corresponding with profit growth, ignoring the profit of the first and second-year. In estimating 30% growth, we make more detailed calculations. For instance, if a particular talent learns certain skills in the next project, it enables certain work to be obtained, cumulatively achieving 30% growth. The power differs between Highly specialized Talents and Specialized Talents. Assuming a Highly specialized Talent is equivalent to two Specialized Talents, calculating like 135 people times two plus 247 yields a specific number. This is akin to a power score for the year, and annually conducting such calculations reveals an approximate growth of 30%. This method of thinking might be reflected in an analyst report from SBI securities. Although our actual calculations are somewhat different, the overall growth image is similar.

[Q] : Reason for upward revision of Specialized Talents for the February 2027 term but no change in the number of highly specialized Talents.
[A] : As I mentioned earlier, more than 50 people were hired from actias Inc. and more than 50 from our company, but due to some attrition, fewer people are expected to become specialized talents.
During the mid-term management period, they won't yet become Highly specialized talents. Previously, after large-scale recruitment post-IPO, the number of specialized talents initially increased. Now, those recruited then are maturing into Highly specialized talents, thus their numbers are increasing. Furthermore, members from M&A activities will eventually become Specialized Talents, leading to an initial increase in their numbers. Over a few years, the number of Highly specialized Talents will rise. Hence, the upward revision is limited to specialized talents.

[Q] : Thoughts on office expansion
[A] : Our current office is solely for headquarters functions. About half of our work is done remotely. We also have a second office in a different location and often rent rooms within clients' premises. We have no immediate plans for headquarters expansion.

[Q] : Regarding recruitment
[A] : Last fiscal year, the net increase was around 200 people. This fiscal year, it is planned to have a net increase of about 250 people. Depending on the progress of profits, we might increase recruitment a bit more, but this is the current recruitment plan.

[Q] : Number of interviews after Prime listing
[A] : In the previous quarter, we probably had one-on-one meetings with about 50 companies. About 70 people have registered for today's briefing session.

MC : Now that the time has come, we will conclude the financial results briefing for the fiscal year ended February 2025. Thank you very much for your participation today.

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