Business Brain Showa-Ota Inc.

Financial Results Briefing for the Fiscal Year Ended March 2024

May 20, 2024

Event Summary

[Company Name]	Business Brain Showa-Ota Inc.
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[Event Name]	Financial Results Briefing for the Fiscal Year Ended March 2024
[Fiscal Period]	FY2024 Annual
[Date]	May 20, 2024
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[Time]	15:30 – 16:20 (Total: 50 minutes, Presentation: 48 minutes, Q&A: 2 minutes)
[Venue]	Kabutocho Heiwa Building 2F, 3-3 Kabutocho Nihonbashi, Chuo-ku, Tokyo 103-0026 (Hosted by The Securities Analysts Association of Japan)
[Venue Size]	145 m^2
[Participants]	21
[Number of Speakers]	3

Kazuhiro Komiya	President
Hitoshi Uehara	Senior Executive Officer, CFO
Yukinori Okada	Executive Director, Corporate Planning Department, Administration Division

Presentation

Moderator: Hello everyone. It's now time to start the Business Brain Showa-Ota Inc. IR meeting. First, I would like to introduce the three attendees from the Company. President Kazuhiro Komiya.

Komiya: My name is Komiya. It's a pleasure to meet you all.

Moderator: Hitoshi Uehara, Senior Executive Officer, General Manager, Administration Division.

Uehara: My name is Uehara. It's a pleasure to meet you all.

Moderator: Mr. Yukinori Okada, Executive Director, Corporate Planning Department, Administration Division.

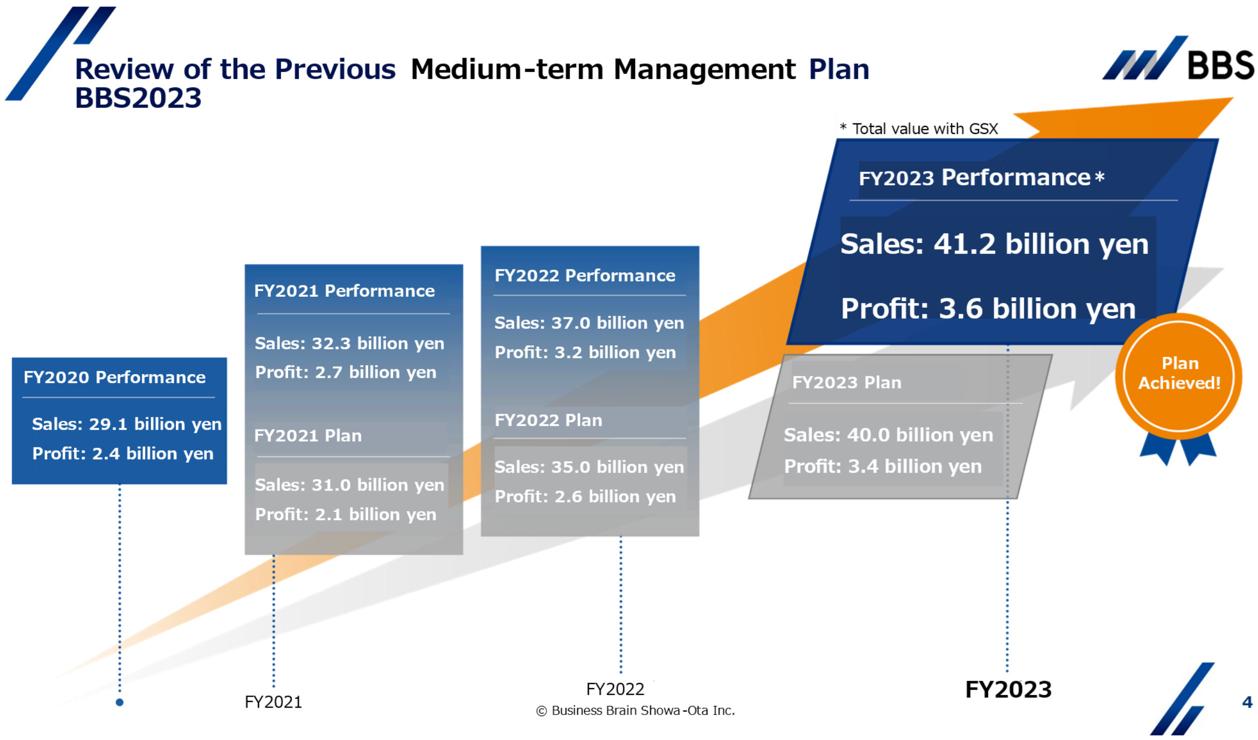
Okada: My name is Okada. It's a pleasure to meet you all.

Moderator: Today, we will start with the presentation by President Komiya, followed by a question-and-answer session. Mr. Komiya, please go ahead.

Komiya: Thank you. Hello everyone. BBS has managed to achieve continued growth due to your support. We are grateful for your support. We believe that the next three years will be an important period for our group to continue growing as a company of 100 years and to achieve net sales of JPY100 billion in 2030.

Therefore, the BBS Group has created a new medium-term management plan this year. I will use H1 of today's session to give an overview of our new medium-term management plan. Then, in the latter half of the meeting, Manager Uehara of the management headquarters will provide details for the financial results for the fiscal year ending March 2024. Thank you.

I will now announce our new medium-term management plan that we plan to implement. In my presentation, I would like to review the previous medium-term management plan, the relationship between our long-term vision Goal 2030 and the new medium-term management plan, the positioning of the new medium-term management plan, planned figures, and the growth strategy, all in that order.



First of all, I will review the previous medium-term management plan. On a consolidated basis that includes the group company GSX, sales were JPY41.2 billion compared to the planned JPY40 billion, and profit was JPY3.6 billion compared to the planned of JPY3.4 billion.

Compared to three years ago, when the medium-term management plan was initiated, sales and profits grew to 142% and 150% respectively, exceeding the original plan of JPY40 billion in sales and JPY3.4 billion in profits. This is also a result of your support. Thank you very much.

I will now review our business strategy. As for company-wide strategies, the strengthening of group synergies, M&A, alliances, and branding all achieved significant results. However, while I believe that we have achieved a certain degree of success in enhancing quality, I regret to tell you that some projects have been performing poorly and thus recognize that further measures are needed.

For business strategies, we managed to continue our substantial business with Royal Customers, which are our important customers. We have also established a Fukuoka branch office and made steady progress in improving the efficiency of our BPO business.

We are also firmly promoting our corporate strategies of human resource enhancement, DX promotion, and sustainability.

Although some issues remained in the previous medium-term BBS2023 plan, we believe that we also achieved good results with the planned figures.

Goal 2030 and the Medium-term Management Plan BBS2026

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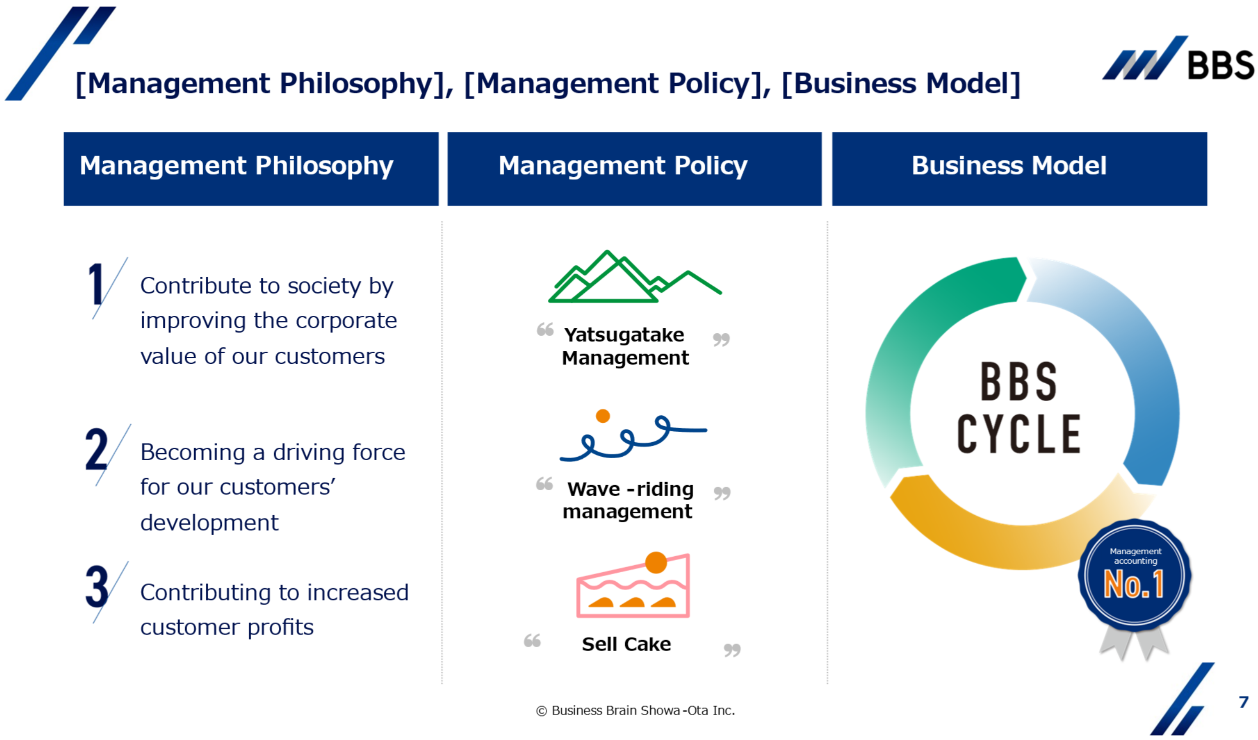
Next, I would like to explain how our vision called Goal2030 is positioned to the newly developed medium-term management plan. The new medium-term management plan is called BBS2026. Continuing from the current medium-term management plan BBS2023, the name is simple and easy to understand.

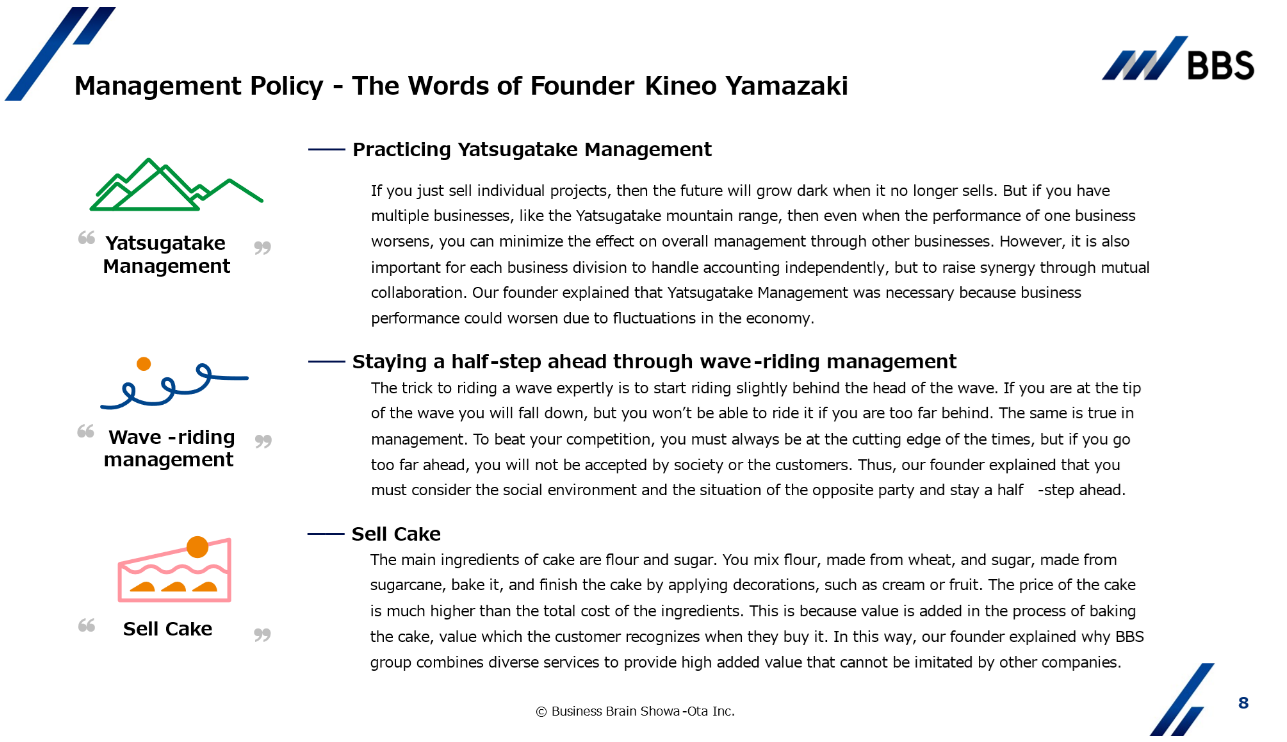


Before I get into the main topic, I would like to introduce the BBS Group's management philosophy, management policies, and business model once more. In its management philosophy, our group advocates contribution to society and clearly states its direction to contribute to society as a whole through increased profits for our customers.

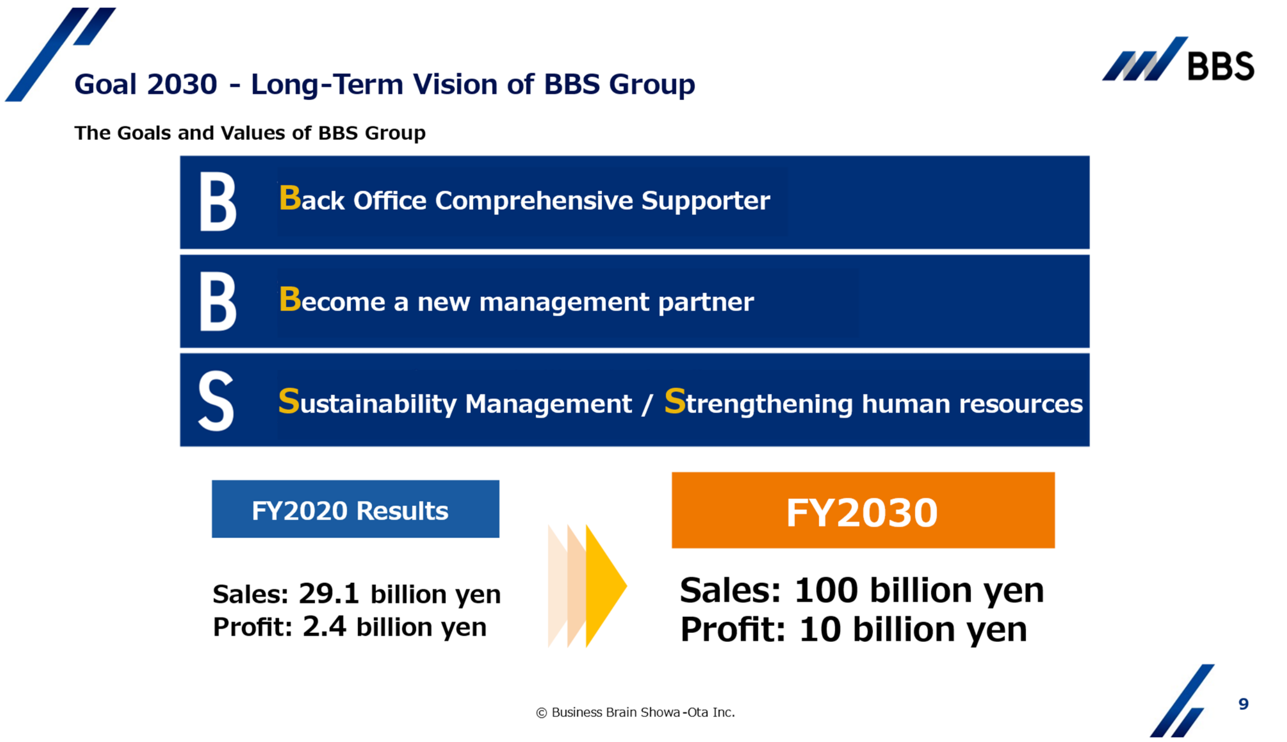
Next, the BBS Group actually did not have a defined management policy. On the other hand, the management philosophy of the founder, Yamazaki, is ingrained in the management team as the founder's words.

Among them are Yatsugatake Management, which aims for business development and growth through cooperation and collaboration throughout the group, as well as the Wave Riding Management to provide the right solution at the right time when introducing it to the customer. Also, we are creating our current medium-term management plan by reaffirming the founder's words and applying them to our management policy, such as through the expression of selling a cake that offers a new form of value that customers seek by combining simple services and products, instead of just providing them.

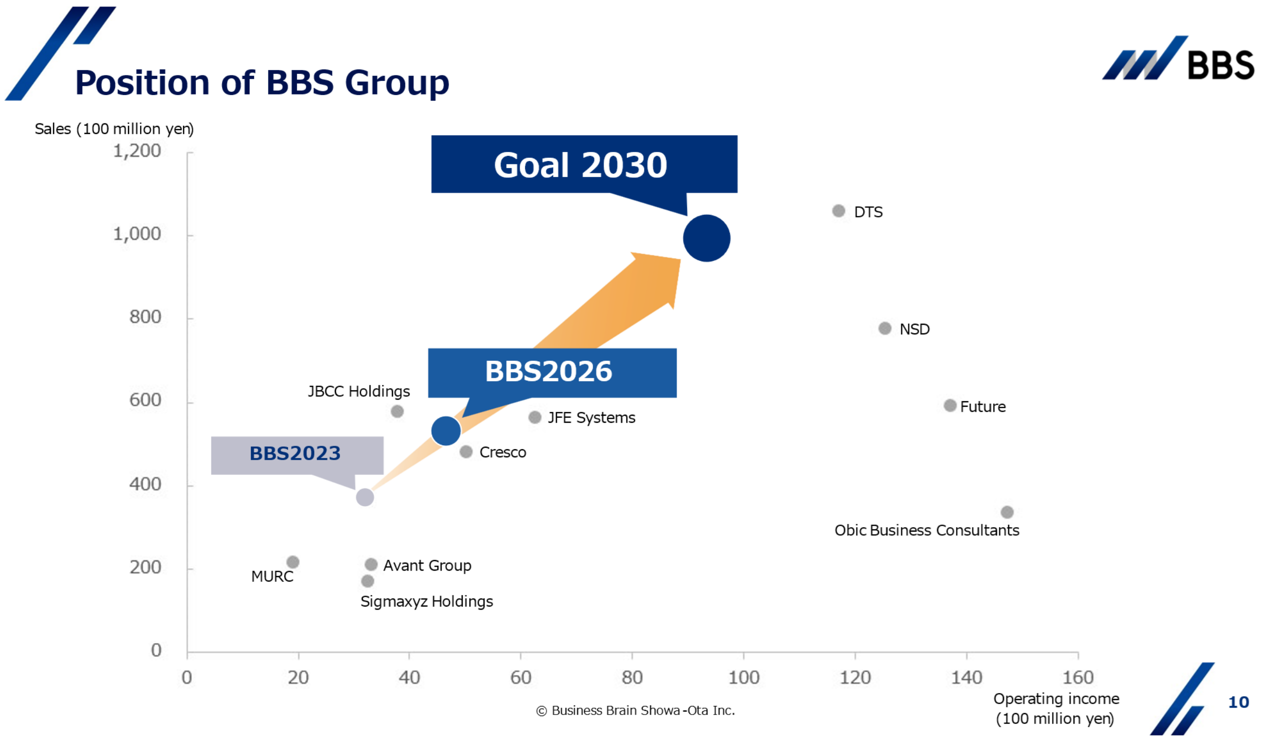
Also, we have decided to establish our own KPI in the current plan due to the necessity of further evolving the BBS CYCLE, which has been the business model of our group for a long time.



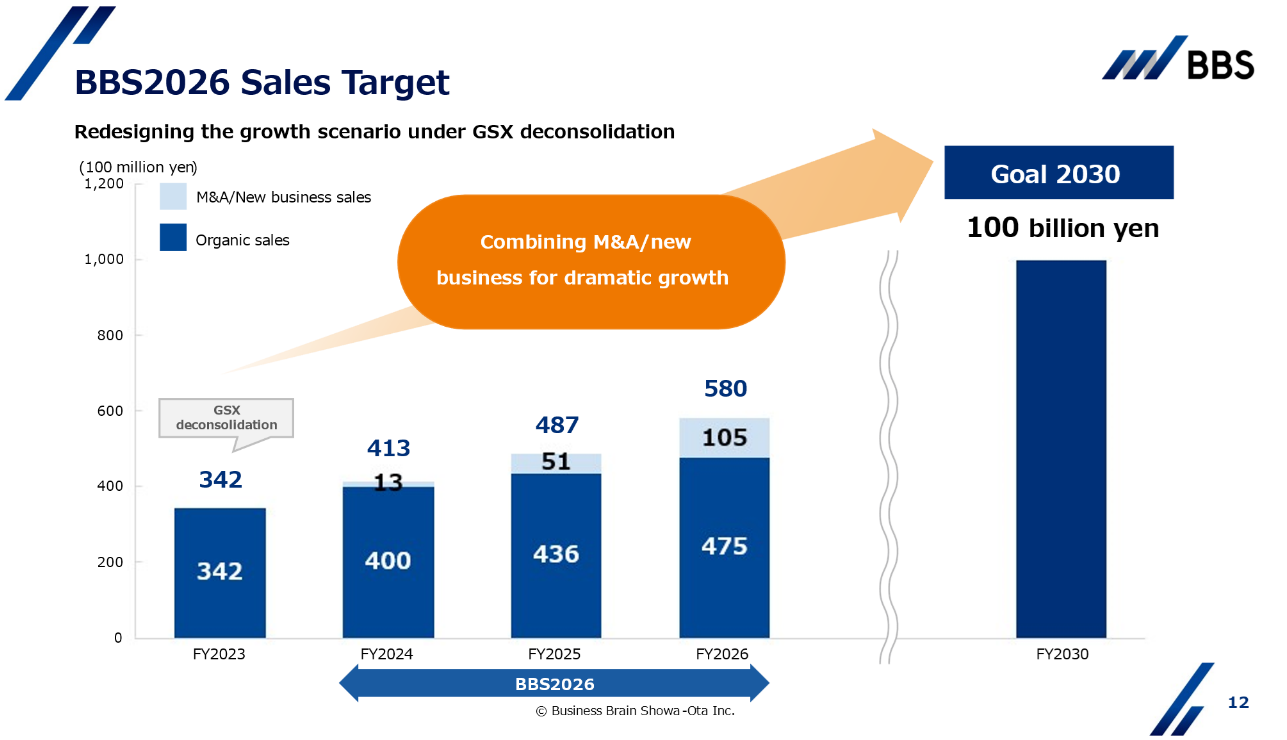
These are the words of our founder, Yamazaki. Please read this in your spare time to understand the management style of the BBS Group.



And here is our vision for 2030. Since the previous 2023 medium-term management plan, we have set forth a vision that is analogous to BBS, which aims to achieve the goals of JPY100 billion in sales and JPY10 billion in profit by 2030.

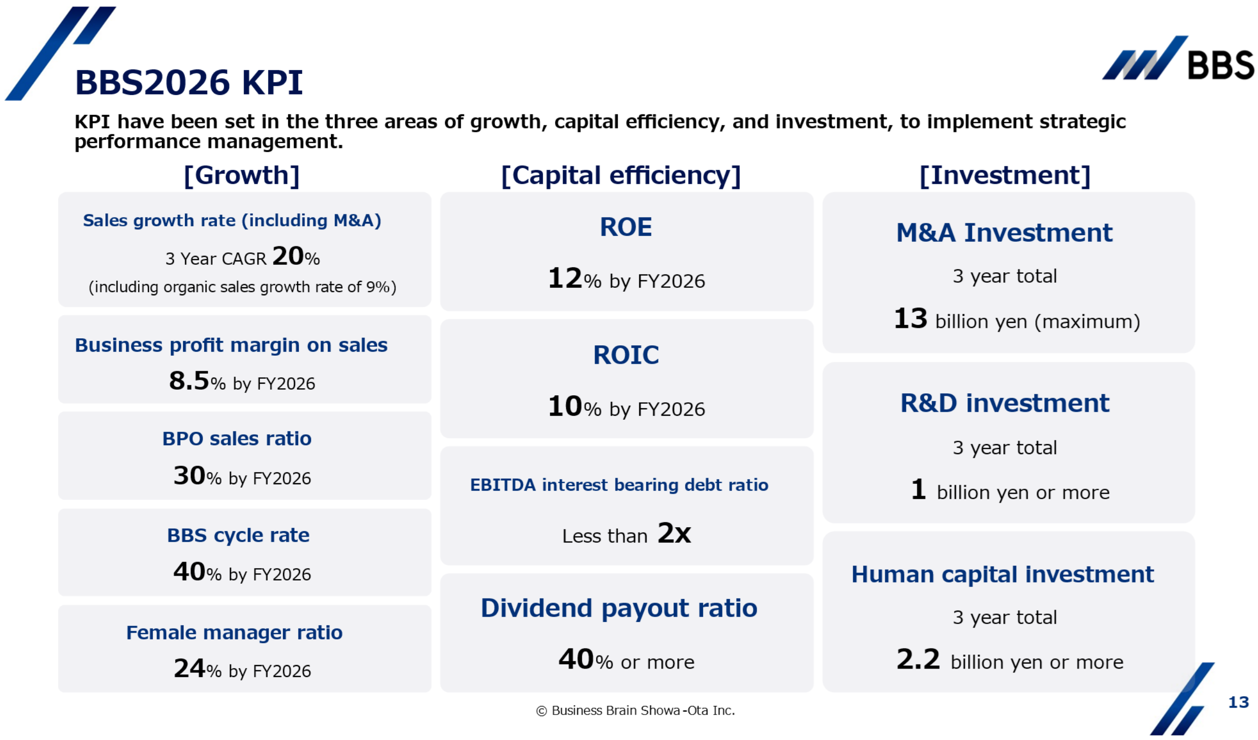


First, please refer to this chart, which shows our recognition of our company's current situation. This chart shows where the BBS Group stands relative to its benchmark companies. Among these company names dotting the chart that I assume you are very familiar with, the BBS Group hopes to achieve further growth in terms of both quality and quantity during the three years of BBS2026, seeking to position itself to compete well with its competitors.



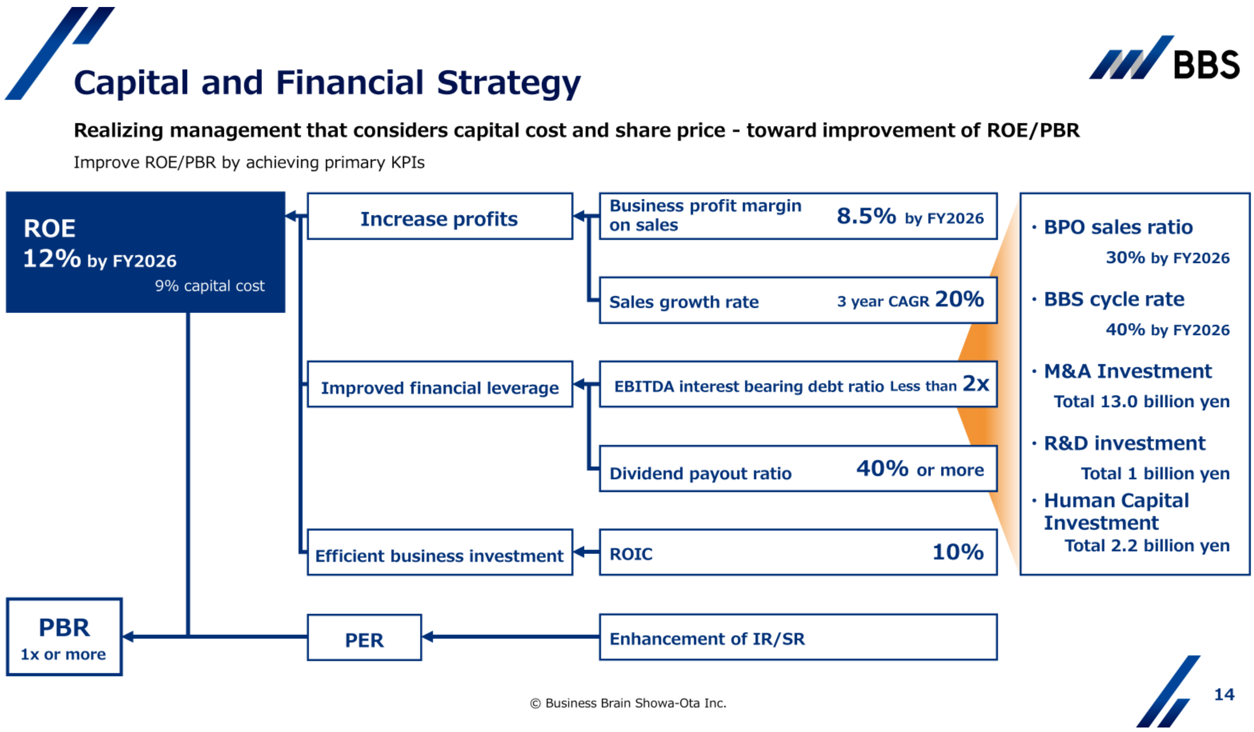
I will now explain the figures for BBS2026. BBS2026 net sales target. To ensure sales of JPY100 billion for Goal2030 and consider these three years as a period of securing a foothold, we have set a sales target of JPY58 billion and an average annual growth rate of 20% to be achieved in three years.

Assuming an average annual growth rate of 9% for existing business sales and including sales growth from Fresco and Twinkle, which were acquired in the last fiscal year, sales in three years will be JPY47.5 billion. For the JPY10.5 billion short of the JPY58 billion goal, we plan to cover this gap through M&A and new businesses. And we will achieve Goal2030 through the growth of these businesses.



In addition, to achieve JPY58 billion in sales in three years, we will set 12 KPIs in BBS2026. In order for the BBS Group to become a sustainable company, we set KPIs from the three perspectives based on growth, capital efficiency, and investment while managing our performance strategically.

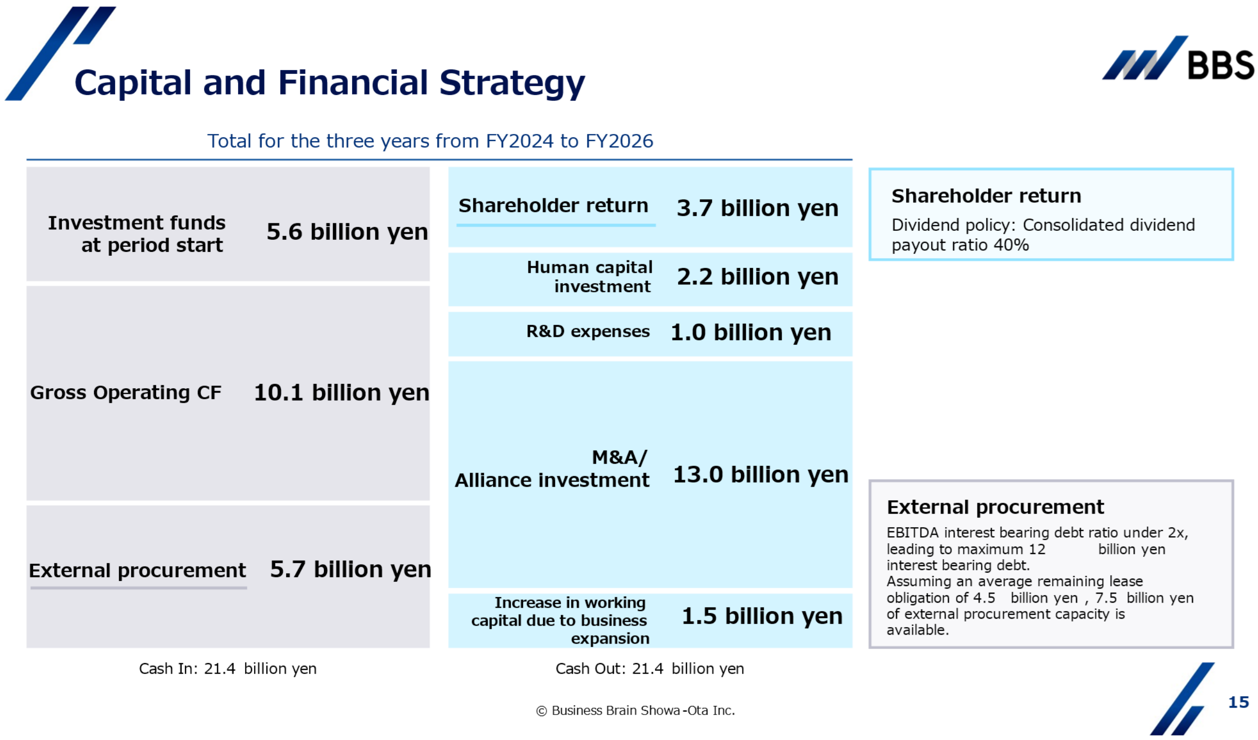
In addition to sales, profit, and BPO sales ratio, growth areas will include BBS cycle rate and ratio of female managers as KPI. For capital efficiency, in addition to ROE and dividend payout ratio, new indicators such as ROIC and EBITDA interest-bearing debt ratio will be used as KPIs. For investment, we will set KPIs for M&A, R&D, and investment in human resources.



For capital and financial strategies, we will continue to promote management that emphasizes capital costs and stock prices.

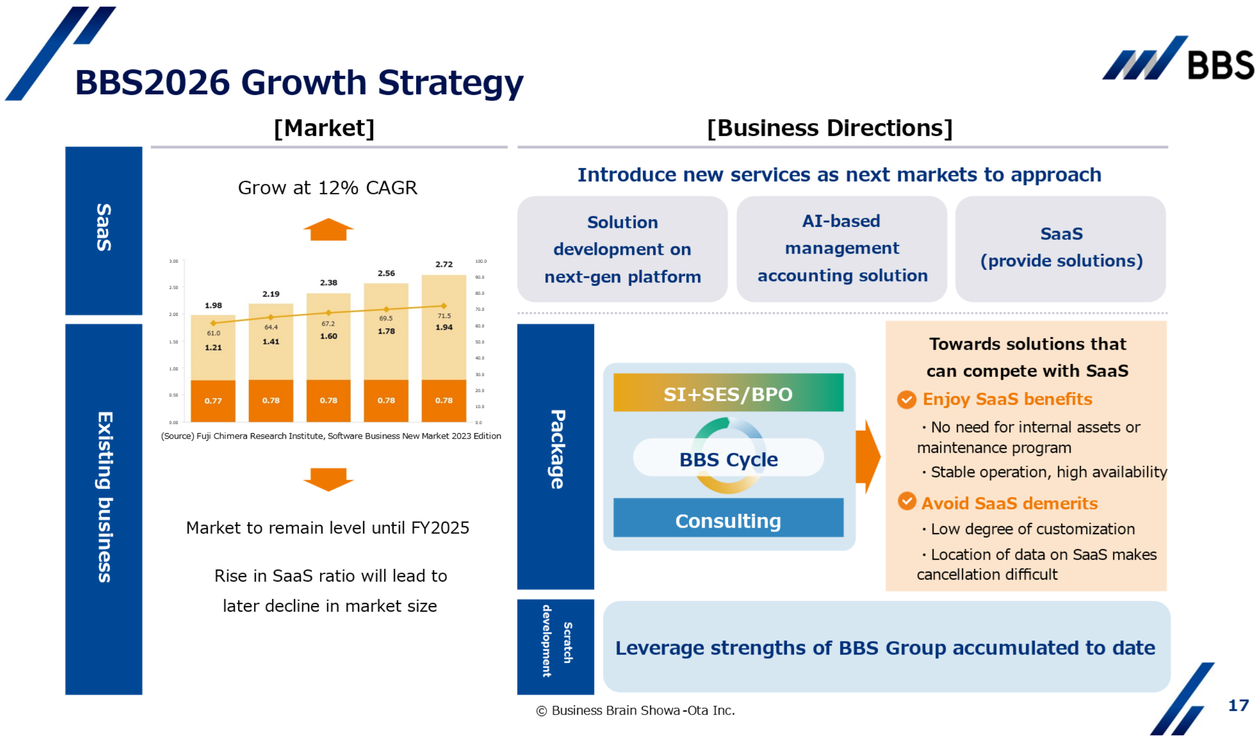
The BBS Group has traditionally maintained a balance between growth and shareholder returns by increasing the dividend payout ratio and implementing share repurchasing, while allocating cash reserves to fund M&A growth. However, as a result of a significant increase in equity capital following the acceptance of GSX as an affiliate in the previous fiscal year, there was a significant change in the capital efficiency indicator. As a result, we aim to return ROE to 12% for capital efficiency in BS2026.

The chart you are looking at summarizes how the 12 KPIs established in BBS2026 affect the improvement of ROE. By achieving these KPIs, we will strive to achieve ROE and PBR, which are indicators of capital efficiency. We will continue to promote financial results presentations and timely disclosure of information to ensure that our company is properly evaluated on the market.



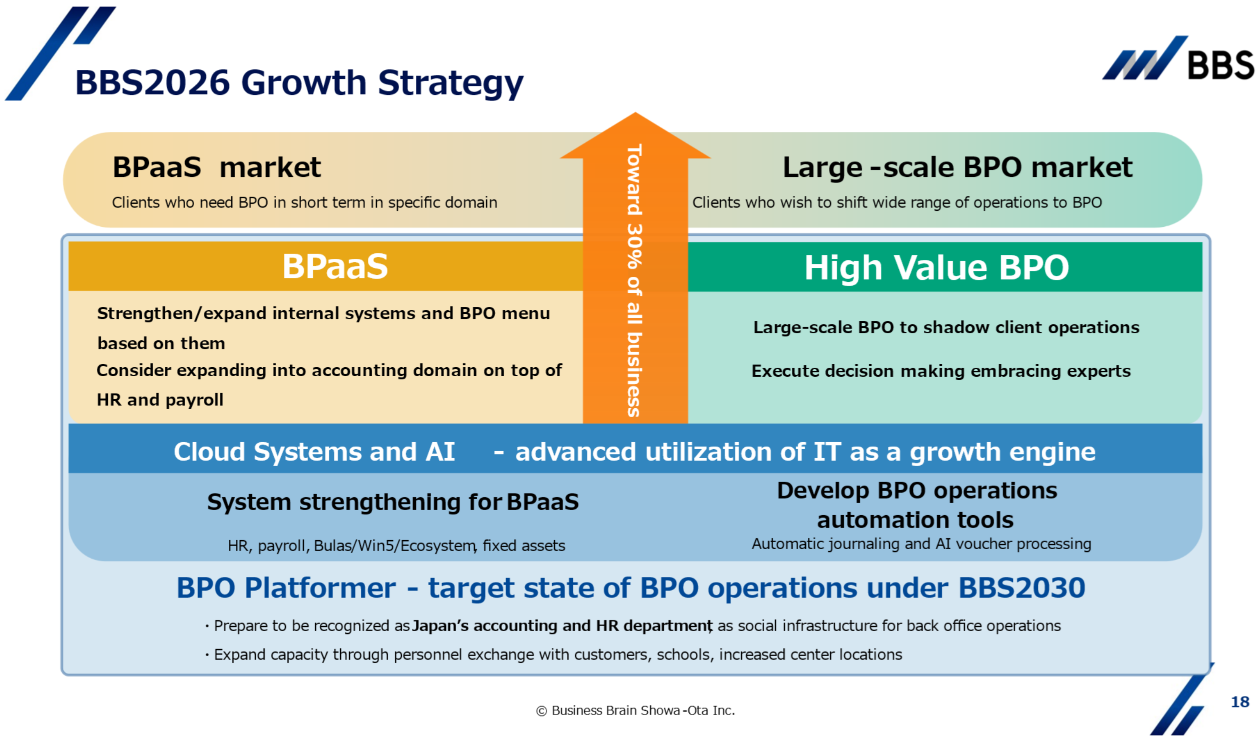
Here are the estimated three-year cash flow for BBS2026. We plan to maintain a dividend payout ratio of 40% over the next three years and return JPY3.7 billion to shareholders. In addition, we would like to invest in human capital for recruiting and training, research and development of new technologies for creating a service menu and conduct M&A and alliances to expand the scale of the Group. These are the areas we hope to allocate our funds to.

For revenues that cover these expenditures, we are considering using cash reserve investment from the beginning of the fiscal year, along with operation revenues over the three-year period, while procuring external funds of JPY5.7 billion to cover the deficit. Based on the EBITDA interest-bearing debt ratio set for the KPI as a financial requirement, I believe we can procure funds up to JPY7.5 billion as a reasonable plan.



The next section describes the growth strategy for BBS2026. According to SI market forecasts, the SaaS market is expected to grow at an average annual rate of 12%, while the packaged service market is expected to remain flat. As for the SaaS business that is expected to grow, we will aggressively launch new services, including the development of solutions based on the next-generation infrastructure, an in-house development tool.

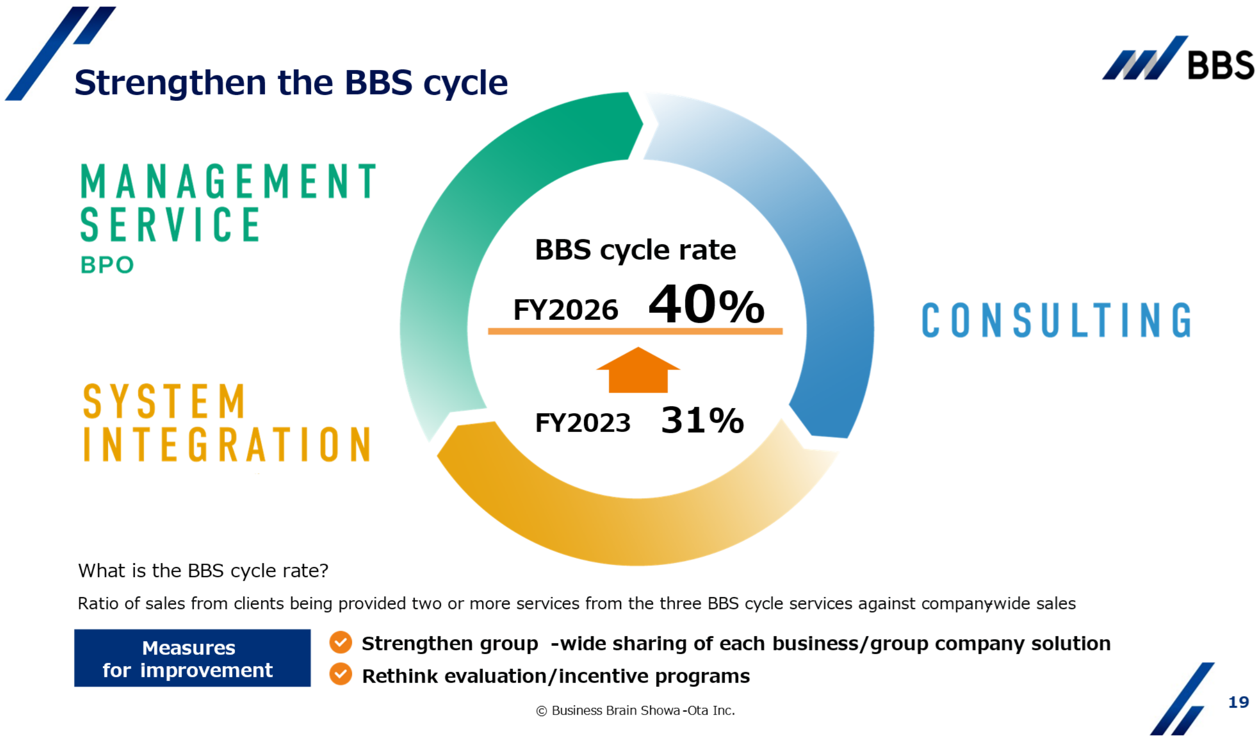
On the other hand, for the packaged service business that is expected to remain flat, we will provide solutions that can compete with SaaS by firmly implementing BBS's unique business model called the BBS cycle. While SaaS has the advantage of eliminating the need for customers to keep their assets and maintenance systems externally, it has the disadvantage of being less flexible in terms of customization. We believe that the solutions provided by BBS are competitive against SaaS.



This is the growth strategy BPO. The BPO market is expected to grow by 2% to 3%, making it a stable market. The BBS Group aims to expand sales that exceeds the level of market growth under these circumstances.

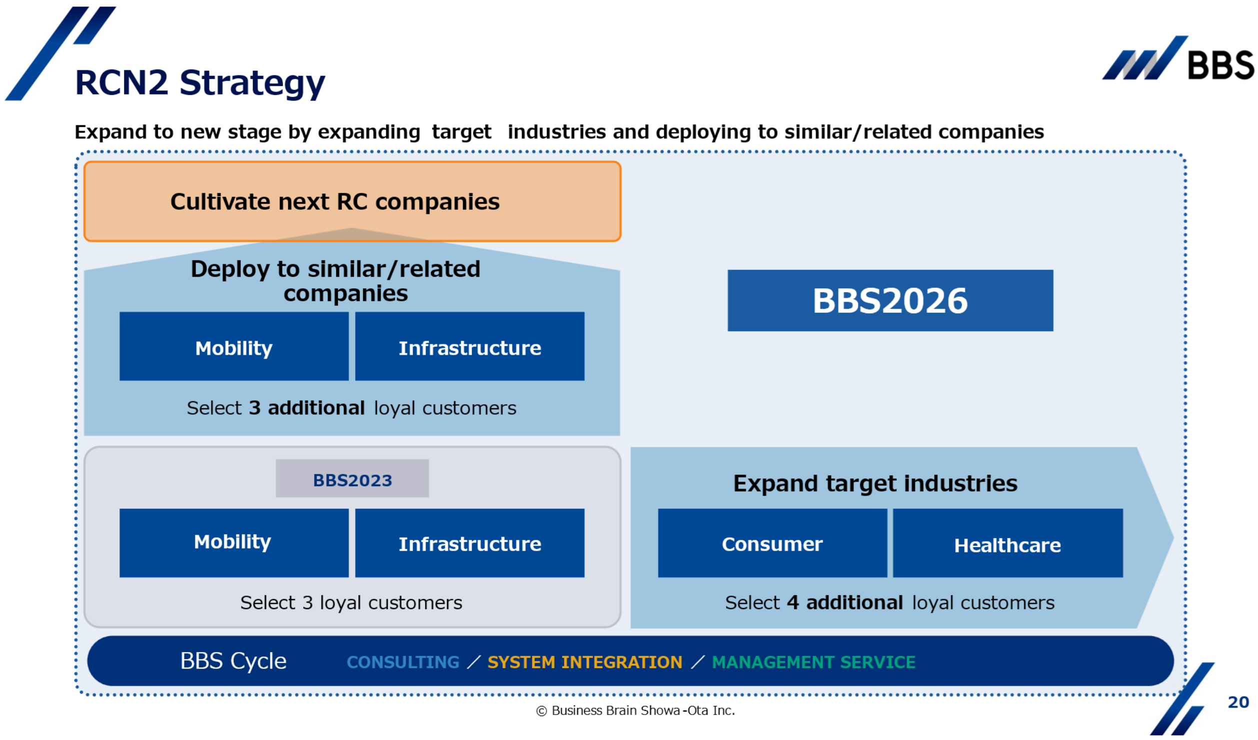
For customers who want to implement BPO for a short period of time, we will promote services through BPaaS. We will strengthen our in-house systems such as Bulas, expand BPaaS in the human resource payroll areas, and work on BPaaS for accounting operations.

On the other hand, for the large-scale BPO market, we will continue offering conventional high-value BPO to our customers. We will leverage our expertise in tax, accounting, human resources, and other areas, as well as our IT knowledge to establish a competitive advantage through high value-added, highly efficient services. In the future, we aim to become a comprehensive business and a comprehensive back-office supporting service that will be recognized as a standard for Japan's accounting department and human resources department.



For the topic of overall strategy, one of the first things we will emphasize in this medium-term management plan is the strengthening of the BBS cycle. The BBS Group's strength that no other consulting firms can match lies in its ability to provide consulting, system integration, and management services as a comprehensive solution.

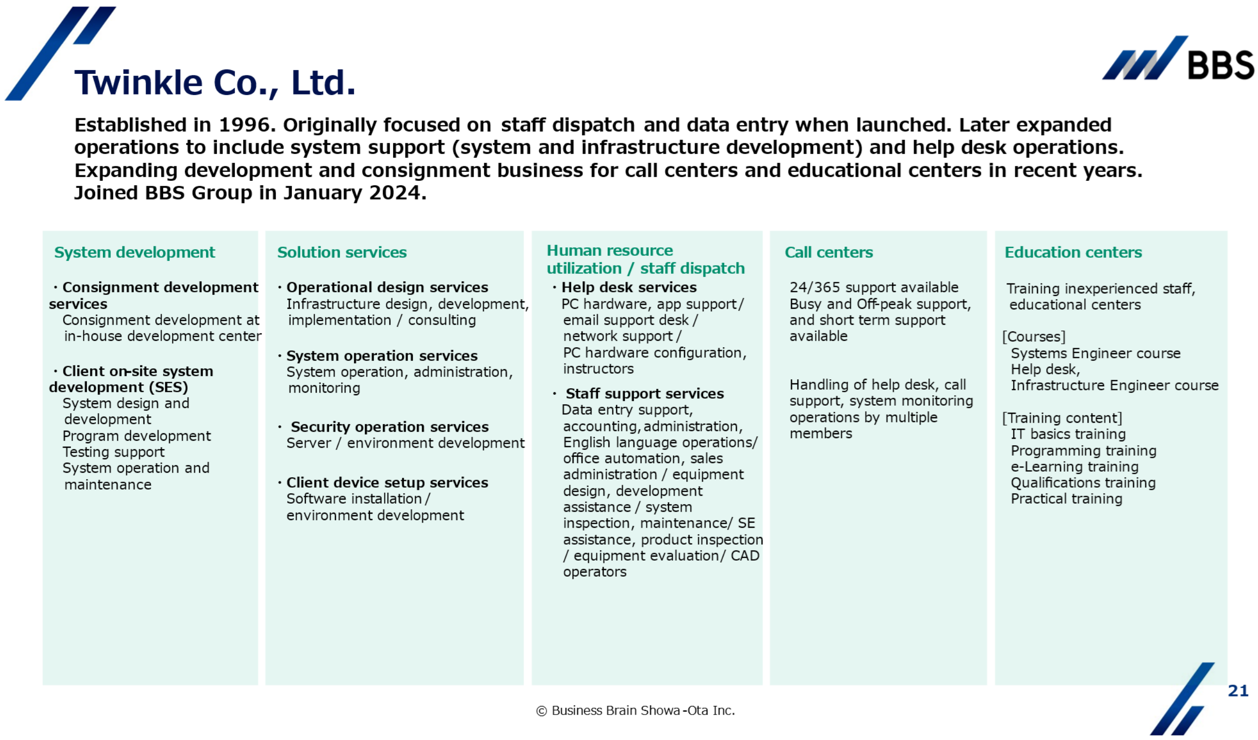
In the BBS2026, we will introduce a new unique indicator called the BBS cycle rate to ensure that this BBS cycle is firmly implemented throughout the Group. We will raise the rate from the current 31% to 40% in FY2026 to enhance the BBS Group's ability to provide solutions.



Next is the RCN2 strategy. Three years ago, we introduced the concept of Royal Customer for the first time and promoted our activities by selecting three companies from the mobility and infrastructure industry. As a result, we managed to maintain and expand our transactions with these three companies and build strong relationships with them, as well as gain an advantage over other companies in the industry.

We will further expand this strategy for BBS2026. In addition to the conventional consulting SI business, we will make efforts as a comprehensive strategy for the entire BBS Group while including the BPO business.

In addition to selecting three new companies in the mobility and infrastructure industries, we have expanded our target industries and selected four new companies in the consumer and healthcare industries as Royal Customers, making efforts to invest our efforts for three years.



Finally, I would like to introduce Twinkle Corporation, which newly joined our group in January. Since its establishment in 1996, Twinkle has been engaging in human resource support, help desk operations, BPO call centers, system operation, and other businesses based on technology and knowledge supported by a wealth of experience, especially in system services and infrastructure construction at major electronics manufacturers.

We are confident that this acquisition will strengthen BBS's system infrastructure services and solutions in the system construction and operation business, along with the call center operations in the BPO business, enabling us to make a further contribution to solving our customers' back-office issues.

That concludes my announcement. Uehara will now give an overview of the financial results. Thank you very much.

[Financial Highlights] Consolidated Operating Results

BBS

(millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024	Change from previous year	Earnings forecast*	Ratio to expected value
Orders received	39,751	34,691	-12.7%	-	-
Revenue	37,063	34,218	-7.7%	34,000	100.6%
Business profit	3,207	2,543	-664	2,400	106.0%
Business profit margin	8.7%	7.4%	-1.3 points	7.1%	-
Operating profit	3,208	20,697	545.2%	20,598	100.5%
Profit before tax	3,241	20,582	535.0%	20,525	100.3%
Profit	2,067	14,167	585.5%	14,309	99.0%
Profit attributable to owners of parent	1,838	14,146	669.4%	14,279	99.1%
Net income per share for period after dilution	154.69 yen	1,224.38 yen	+1,069.69 yen	-	-
ROE	13.0%	64.4%	51.4 points	-	-

* Values announced on July 31, 2023

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Uehara: Hello, everyone. I am Uehara, the manager of the management headquarters. I will now provide an explanation of our financial results for the fiscal year ended March 2024.

First, let's look at the summary of the consolidated financial performance. Orders received totaled JPY34.691 billion, a decrease of JPY5.1 billion or a 12.7% decline. Sales revenue was JPY34.218 billion, a decrease of JPY2.8 billion, or a 7.7% decline.

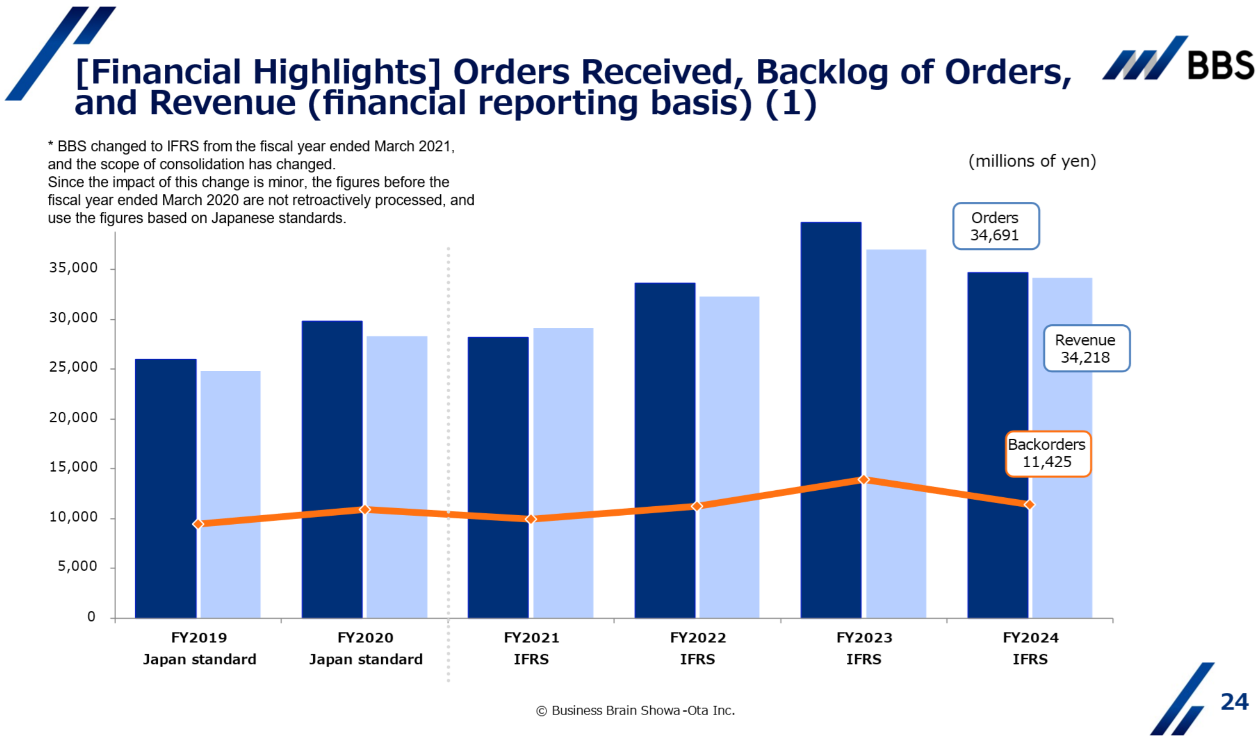
Although business profits were JPY2.543 billion, a decrease of JPY664 million, or a 20.7% decline, it exceeded our forecasts by JPY143 million.

The main reason for the decrease in these figures is attributed to a decrease involving the exclusion of our subsidiary GSX from consolidation.

Although these figures are below operating profits, we incurred JPY18.1 billion in profits from loss of ownership of the subsidiary through stock sales of GSX and other companies. As a result, the figures have increased significantly compared to the previous fiscal year.

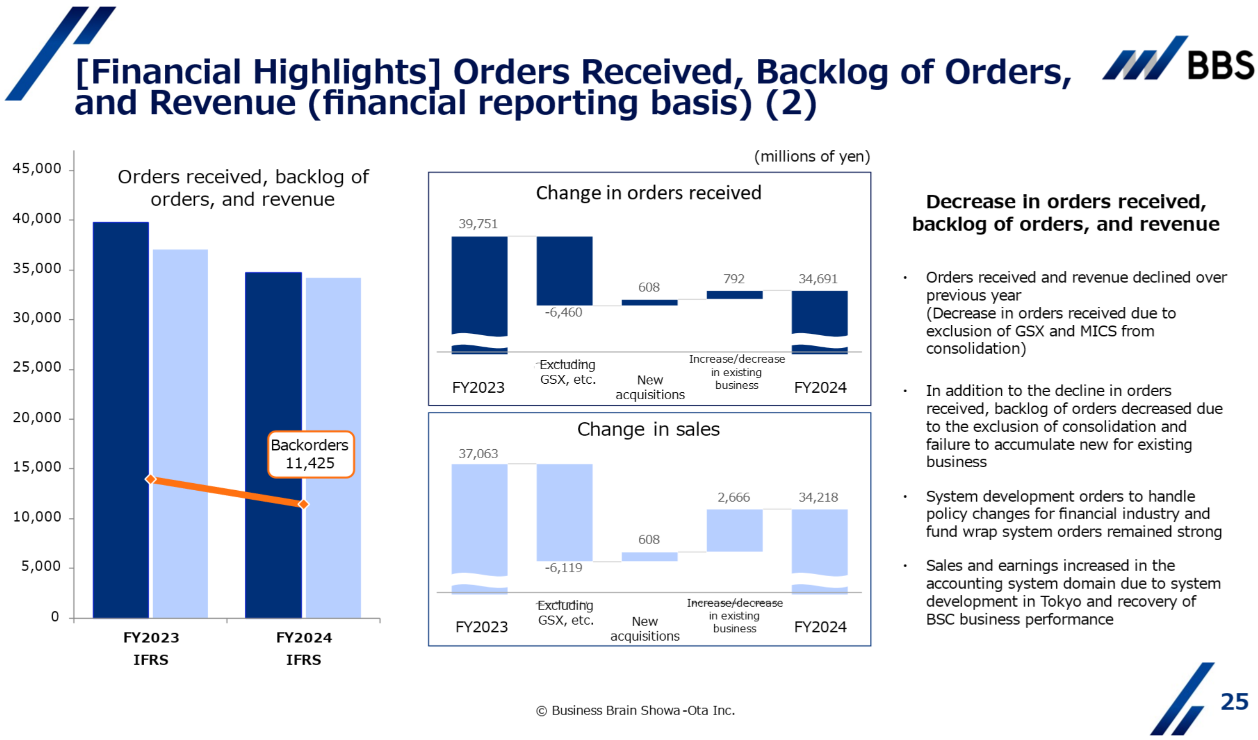
As you can see, operating profits were JPY20.697 billion, profits before taxes were JPY20.582 billion, current profits were JPY14.167 billion, and current profits attributable to owners of the parent company were JPY14.146 billion. The increase rate for each of these figures exceeds 500%.

I will explain the details from the next page.



First, the status of received orders. Although orders received and sales revenue both grew steadily until the previous fiscal year, they have decreased by 12.7% YoY as mentioned earlier. With the decline in orders received, the backlog of orders also decreased similarly.

As mentioned earlier, the major reason for the decrease was the exclusion of GSX and other companies from consolidation. I will describe the details on the next page.



The graph on the left is a cutout of the past two fiscal years from the previous page, whereas the graph in the middle shows the change from the previous fiscal year to the current one.

First of all, if you refer to the graph at the top where it shows orders received, it has decreased by JPY5.06 billion from JPY39.751 billion in the previous fiscal year to JPY34.691 billion in the current fiscal year. The breakdown is the JPY6.46 billion attributed to the exclusion of GSX from consolidation, which I mentioned earlier.

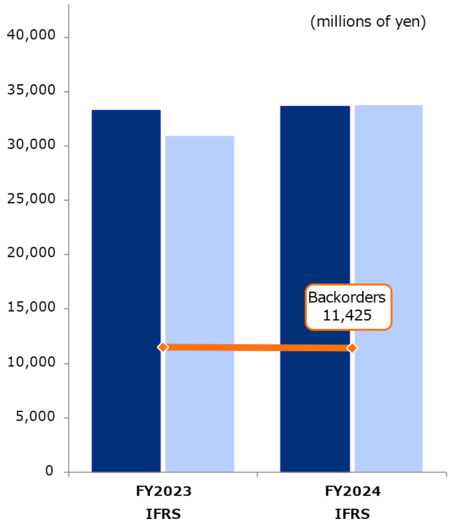
Although we hoped to cover these losses with the newly acquired Fresco and Twinkle, as well as receiving orders from existing businesses, we unfortunately could not achieve increased revenues and experienced significant losses in received orders instead. This is due to limited resources resulting from allocating them to address poor-performing projects in our existing business, coupled with our inability to win large-scale projects for our BPO business this fiscal year.

Although sales revenue also decreased similarly by JPY2.845 billion from JPY37.063 billion in the previous fiscal year to JPY34.218 billion in the current fiscal year, while there was a JPY6.119 billion decrease from the exclusion of GSX and other companies from consolidation, existing businesses increased by JPY2.666 billion and recovered about half of these losses.

As an overall result, the current fiscal year's sales revenue increased while the backlog of orders also decreased significantly. Although the chart may indicate it in this manner, this is mainly attributed to excluding GSX and other companies from consolidation, which I mentioned earlier. If you turn to the next page, you can confirm the details.

[Financial Highlights] Orders Received, Backlog of Orders, and Revenue (after deconsolidation)

BBS



Revenue increased but orders received and backlog of orders remained unchanged

- Sales from orders received remained almost unchanged over previous period at 1.1%
  (Consulting/Sys. Dev. +2.3%, BPO -2.2%)
- Backlog of orders also almost unchanged over previous period at -0.8%
  (Consulting/Sys. Dev. -1.9%, BPO +0.1%)
- Revenue continued to increase
- System development orders to handle policy changes for financial industry and fund wrap system orders remained strong
- Revenue increased in the accounting systems domain due to system development in Tokyo and recovery of BSC business performance

* BBS changed to IFRS from the fiscal year ended March 2021, and the scope of consolidation has changed. Since the impact of this change is minor, the figures before the fiscal year ended March 2020 are not retroactively processed, and use the figures based on Japanese standards.

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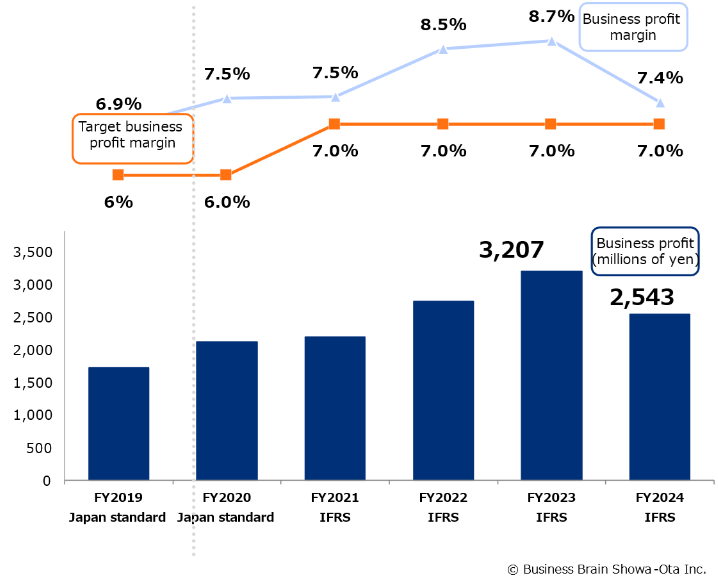
This page shows the graph on the left side of the previous page, which excludes the effects of GSX and other companies. The figures we have announced in our quarterly statements exclude these effects of GSX. Therefore, I think these figures are the accurate ones.

As you can see, orders received and sales revenue from existing businesses for the current fiscal year are almost in line with expectations, resulting in an order backlog that is almost unchanged from an existing business basis.

As you can see, the original level for the order backlog that I mentioned earlier is shown here. I believe you can see that the order backlog itself has also disappeared due to GSX and other companies.

Nevertheless, it’s true we couldn’t manage to increase the order backlog in our existing businesses. As we are devising various plans to further boost sales from the new fiscal year, we have started with some difficulties.

[Financial Highlights] Business Profit (financial reporting basis)



Decline due to impact of deconsolidation

	Business profit
Fiscal year ended March 31. 2023 (first half)	**3,207**
Gross profit decrease (-)	**-1,153**
Increase in SG&A expenses (- indicates an increase in expenses)	
Decrease due to deconsolidation (GSX, MICS)	913
Outsourcing costs	-149
Hiring costs	-45
Advertising costs	-46
Maintenance fees	-80
Other	-104
Increased profit due to decline in SG&A costs	**489**
FY2024 (current period)	**2,543**

* BBS changed to IFRS from the fiscal year ended March 2021. Figures before the fiscal year ended March 31, 2020 are posted as a reference to illustrate performance trends. Also, figures shown are operating profit until the fiscal year ended March 2022.

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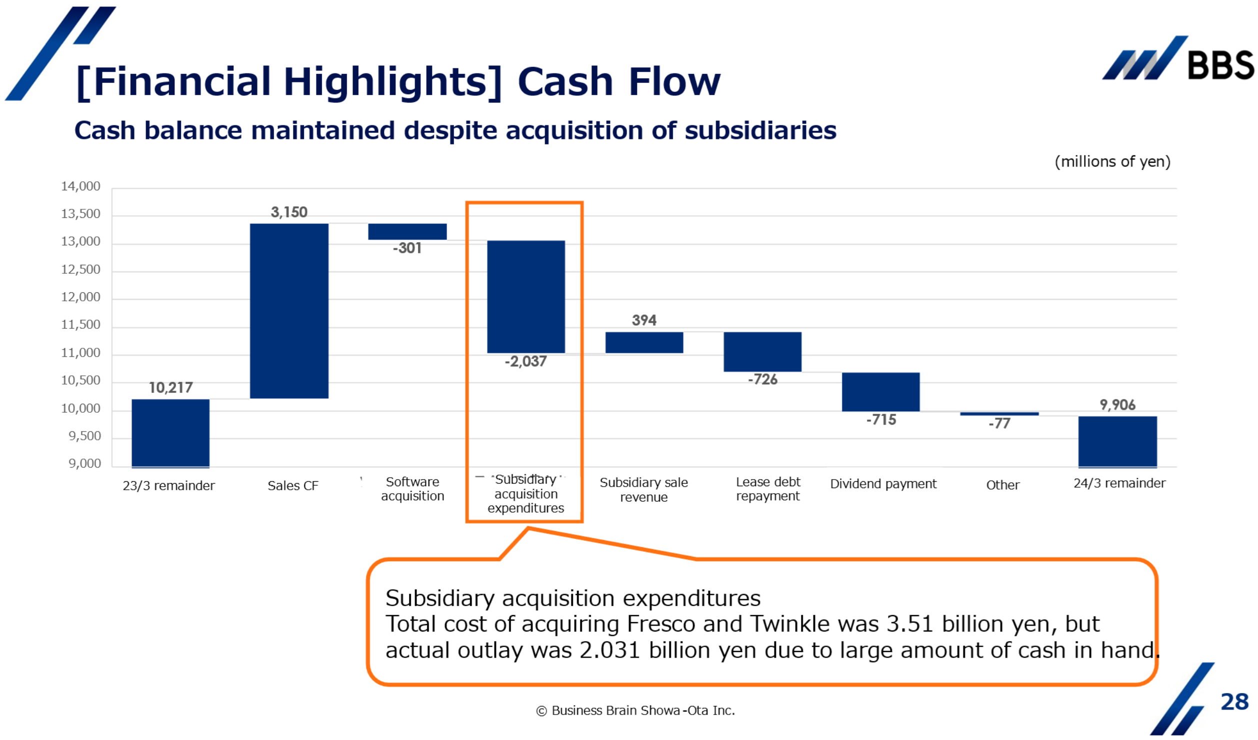
Now please refer to the business profits. Business profits decreased by 21% to JPY2.143 billion. The analysis of changes from the previous fiscal year is shown in the table on the right.

Business profits for the previous fiscal year were JPY3.207 billion, whereas a decrease in gross profit from a decline in sales was JPY1.153 billion. SG&A expenses also decreased, which contributed to an increase in profits, amounting to JPY489 million. Finally, business profits for the current fiscal year were JPY2.543 billion.

As you can see, the biggest reason for the decrease in SG&A expenses was the elimination of SG&A expenses attributed to the exclusion of GSX from consolidation.

Other factors such as outsourcing and recruiting costs have been increasing, and these are the main reasons for the increase in expenses.

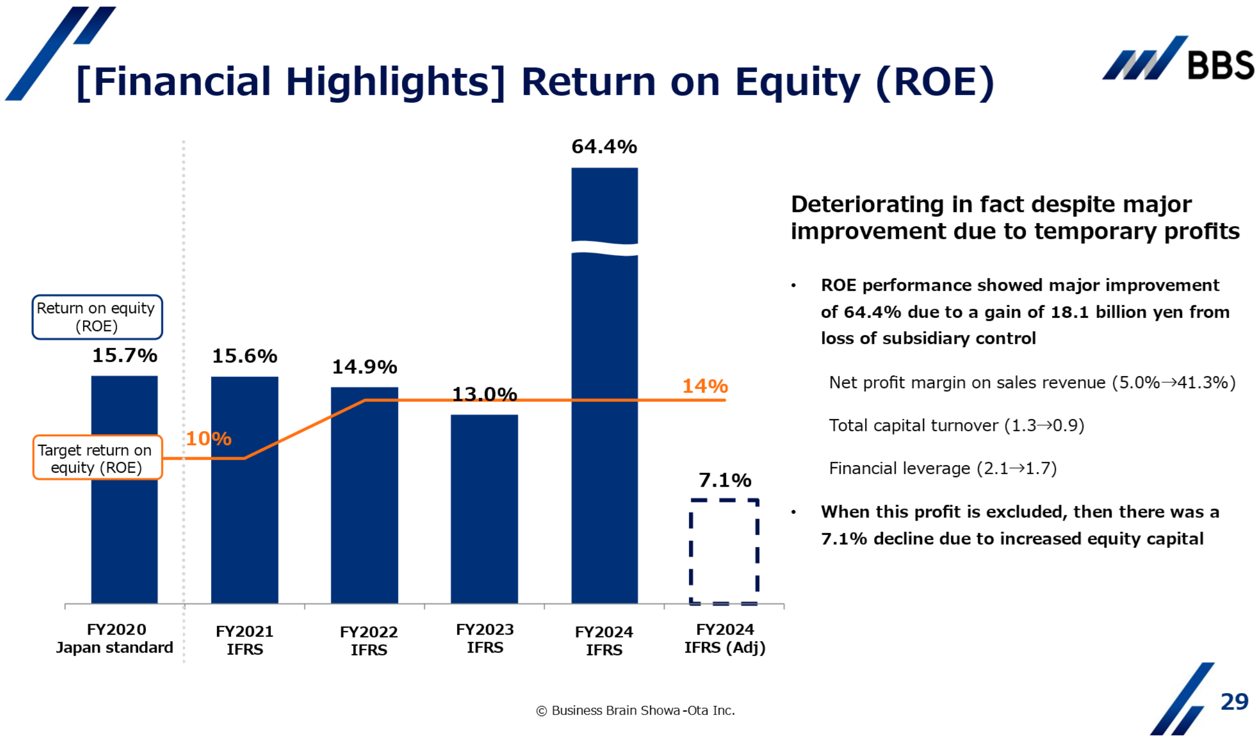


I would like to continue with an explanation of cash flow. The cash balance at the beginning of the fiscal year was JPY10.217 billion, which was JPY9.906 billion at the end of the period, a decrease of JPY311 million in cash throughout the year. The change is shown here.

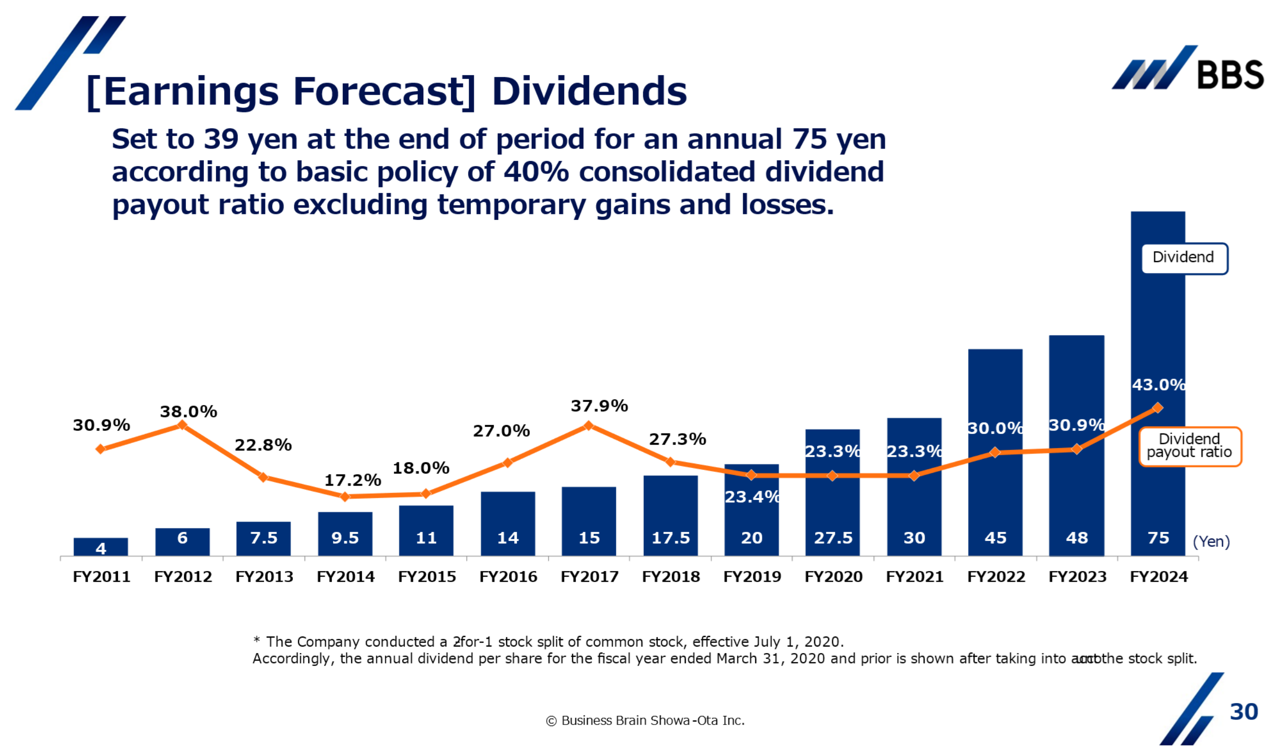
For the increase factors, operating cash flow increased by JPY3.15 billion, while the outgoing cash flow factor was JPY2.037 billion in expenditure for the acquisition of subsidiaries. These are the two big ones.

As you can see from the comments shown here regarding the acquisition of these subsidiaries, Fresco and Twinkle were acquired during the current fiscal year for a total of JPY3.51 billion. However, Twinkle particularly had a great amount in cash reserves, meaning their reserves of JPY2.037 billion cancel out the majority of the JPY3.51 billion in outgoing cash flow.

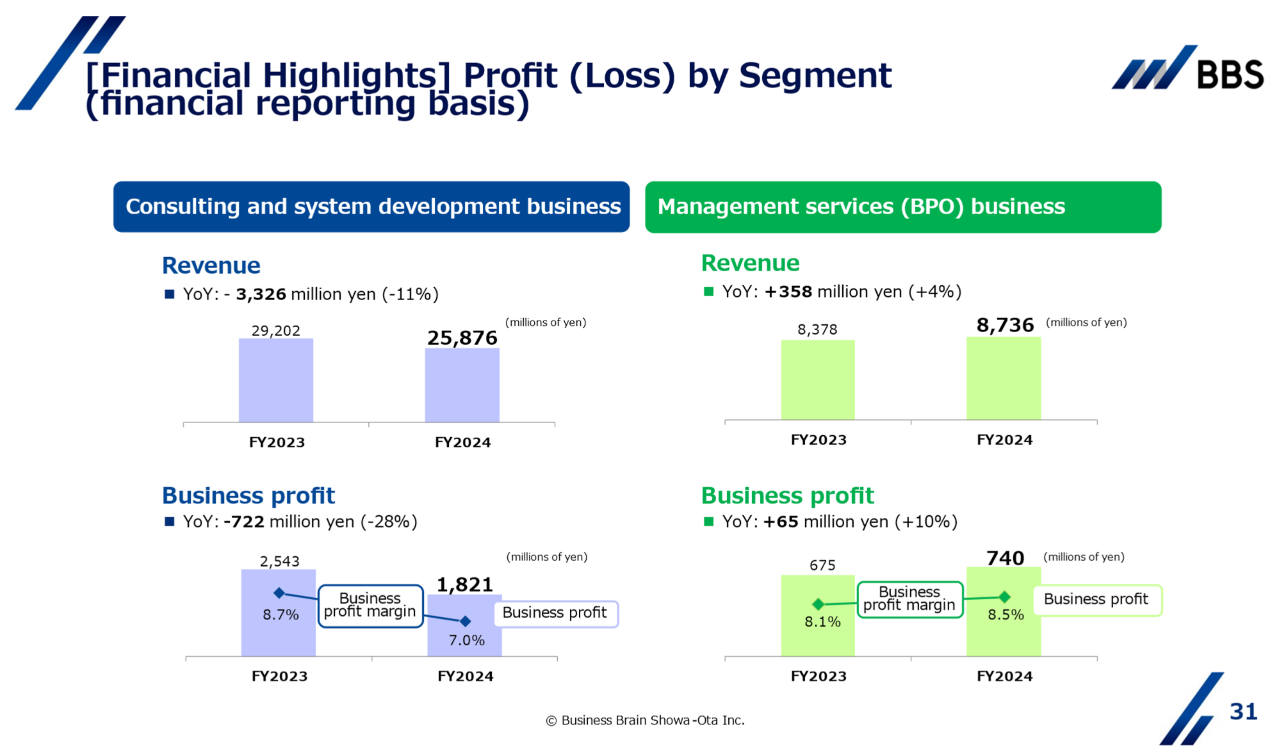
On the other hand, the sale of GSX and other companies resulted in a gain of JPY2.053 billion, and the cash held by the two companies was excluded from the consolidated financial Statements this time. The incoming cash flow on a consolidated basis was JPY394 million.



Next, I will explain the ROE. This figure also improved significantly from the previous fiscal year due to profits from the loss of control over GSX and other companies, resulting in a figure of 64.4%. As shown here, this is only a temporary factor. If we exclude the gain from the loss of control and calculate the current fiscal year's ROE, it would amount to 7.1%, where the figures are worsening significantly. The major factor lies in how equity capital increased from the sales of GSX stocks. As Komiya explained earlier, we would like to raise this level to 12% in three years as mentioned in the medium-term management plan starting this fiscal year.



As for dividends, from this fiscal year, the consolidated dividend payout ratio excluding the temporary change basically amounts to 40%. Since we specified an interim dividend of JPY36 per share, we would like to pay a year-end dividend of JPY39 per share for a total annual dividend of JPY75 per share, as a result of adjusting to 40% for actual profits, based on our dividend policy.

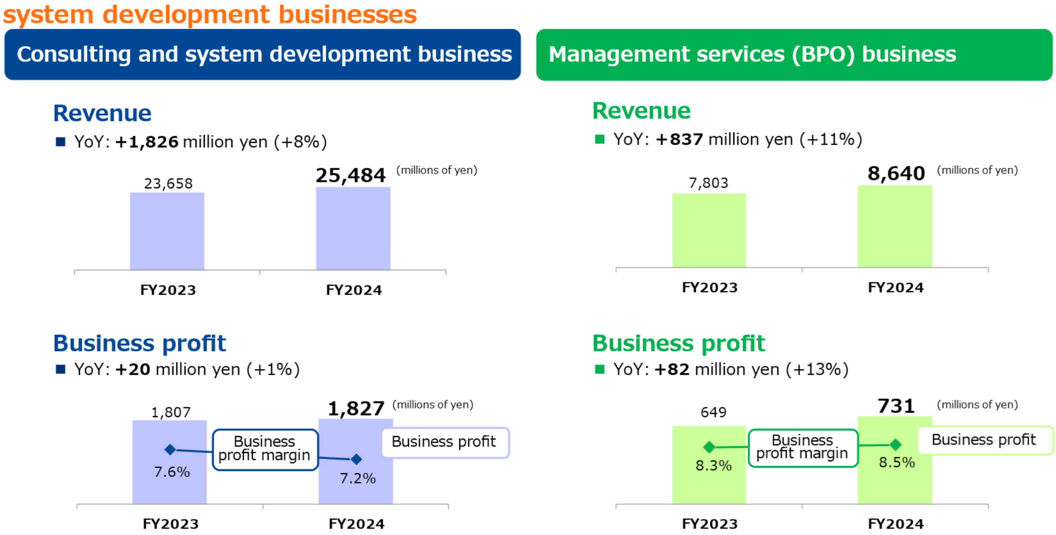


I will now explain the performance by segment. These are the so-called financial report-based figures, with the amounts of GSX and other companies shown as is. For the business profit for the consulting and system development business, you can see that the figures have decreased significantly.

[Financial Highlights] Profit (Loss) by Segment (reflecting deconsolidation)

BBS

Significant increase in sales and profit in the consulting and system development businesses



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On the next page, we have prepared the changes based on existing businesses, excluding the effects of GSX and MICS. If you refer to this, although both sales revenue and business profits increased in both segments, the consulting and system development business saw a slight decline in profit margin. I would like to discuss these factors in more detail in the next section regarding the status by sub-segment.

[Financial Highlights] Details of Consulting and System Development Business (financial reporting basis)

BBS

(millions of yen)

	Revenue			Segment income		
	Year ended March 31, 2023	Year ended March 31, 2024	YoY Increase (decrease)	Year ended March 31, 2023	Year ended March 31, 2024	YoY Increase (decrease)
Accounting system consulting and system development	17,653	18,605	952	1,449	1,491	42
System development for the financial industry	5,357	6,092	735	214	301	87
Information security consulting	5,544	392	-5,152	736	-6	-742
PLM support solutions	1,148	1,197	49	173	46	-127
(Adjustment)	-500	-410	90	-29	-11	18
Segment total	29,202	25,876	-3,326	2,543	1,821	-722

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First, here is a sub-segment status for the consulting and system development business. This table includes GSX.

[Financial Highlights] Consulting and System Development Business Details (GSX deconsolidation)

BBS

(millions of yen)

	Revenue			Segment income		
	Year ended March 31, 2023	Year ended March 31, 2024	YoY Increase (decrease)	Year ended March 31, 2023	Year ended March 31, 2024	YoY Increase (decrease)
Accounting system consulting and system development	17,653	18,605	952	1,449	1,491	42
System development for the financial industry	5,357	6,092	735	214	301	87
PLM support solutions	1,148	1,197	49	173	46	-127
(Adjustment)	-500	-410	90	-29	-11	18
Segment total	23,658	25,484	1,826	1,807	1,827	20

■ **Accounting system consulting and system development**
Steady progress for system development in Tokyo and BSC, but profits stagnated due to the impact of poor project performance in West Japan.

■ **System development for the financial industry**
Increased revenue and profits due to more projects thanks to policy changes and steady progress in our package fund wrap projects.

■ **PLM support solutions**
Revenue increased with acquisition of Fresco (FRSC), but major decline in profits caused by troubled projects.

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The next page shows the version excluding GSX, which I would like to provide specific details for. Essentially, it excludes the information security consulting row from the previous table and there weren't many effects on other businesses.

For the accounting system consulting and system development business shown at the top of the list, the construction-related business for BBS, our parent company, has been growing. Additionally, sales from BSC, which was acquired last year or the year before, have also increased considerably and resulted in a significant revenue increase.

As you can see, the profit and loss show increased revenues but insufficient growth compared to the increased amount in sales. One of the reasons for the worsening profit margin is that BBS had some poorly performing projects, especially in the Kansai region. Nonetheless, they did not lead to losses.

Since this project has already been completed, there will be no direct loss in the new fiscal year. But as I mentioned earlier, there is a slight effect on orders received. We are now in the process of regaining orders over Q1 and Q2 of the current fiscal year.

In the second row with system development for the financial industry, sales of fund wrap projects were strong, as well as the new NISA, which is one of the topics. The new NISA project created as a result of a systemic revision, contributed to strong performance.

However, we started operations this January, as we announced regarding the new NISA. This operation was largely completed last year. From the new fiscal year onward, we need to find another form of opportunity that creates profits.

This is the PLM support solution. Unfortunately, we've incurred poorly performing projects at our subsidiary, PLM Japan regarding this. The Company itself has posted a significant decrease in both sales revenue and profits.

On the other hand, with the aforementioned acquisition of Fresco, the total of these two companies amounts to a revenue increase. But in terms of profits, Fresco itself was still burdened with PMI expenses and other matters. As a result, it hasn't contributed much to the current fiscal year's profits and showed an overall loss of profits.

Although the PLM Japan project has been performing poorly, it's coming to an end. It hasn't been completed yet, but we have included the countermeasure costs to this financial statement and I don't think we will see any further losses incurring for the new fiscal year.

[Financial Highlights] Management Services (BPO) Business Details (excluding MICS)

BBS

(millions of yen)

	Revenue			Segment income		
	Year ended March 31, 2023	Year ended March 31, 2024	YoY Increase (decrease)	Year ended March 31, 2023	Year ended March 31, 2024	YoY Increase (decrease)
HR and payroll related outsourcing	3,276	3,392	116	511	513	2
Outsourcing for global companies	1,889	2,072	183	42	0	-42
Outsourcing for foreign companies	1,012	1,105	93	85	94	9
Onsite BPO	1,706	2,190	484	81	126	45
(Adjustment)	-80	-119	-39	-70	-2	68
Segment total	7,803	8,640	837	649	731	82

■ **HR and payroll related outsourcing**
Revenue increased mainly due to penetration of price hikes, but profits stagnated due to increase in equivalent personnel costs.

■ **Outsourcing for global companies (supporting BPO for highly specialized business operations, etc.)**
Revenue increased thanks to rising unit price, expanded operations for existing clients, and steady progress at payment subsi diary, but profits declined due to increased personnel and investment in optimization.

■ **Outsourcing for foreign companies**
Revenue increased due to expansion of customers to domestic companies through bilingual projects. Profits remained unchanged due to expansion of locations through M&A and increased hiring.

■ **On-site BPO**
Increase in revenue and profits with Twinkle (TWK) acquisition.

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The status of the management services (BPO) business is shown on a table on the next page, excluding the details for MICS, which I will explain. MICS is included in the onsite BPO category at the bottom of this table.

The price hike for the human resource's payroll-related outsourcing services has led to increased revenues. However, the corresponding personnel expenses have also risen. Therefore, the effects on profits are not so significant.

On the other hand, I believe we have mentioned several times about the difficulties we are experiencing in building a sales structure. Due in part to these factors, although sales growth has not been very strong, we are gradually receiving orders. As this is associated with BPO, there will be a time lag in sales reflection. We expect performance to gradually recover.

In the area of outsourcing services for global companies, increases in unit prices, expansion of existing customer operations, and the payment businesses of subsidiaries performed well, increasing revenues.

On the other hand, we have recorded investment expenses to improve efficiency by using new technology, along with an increase in personnel expenses, resulting in decreased profits.

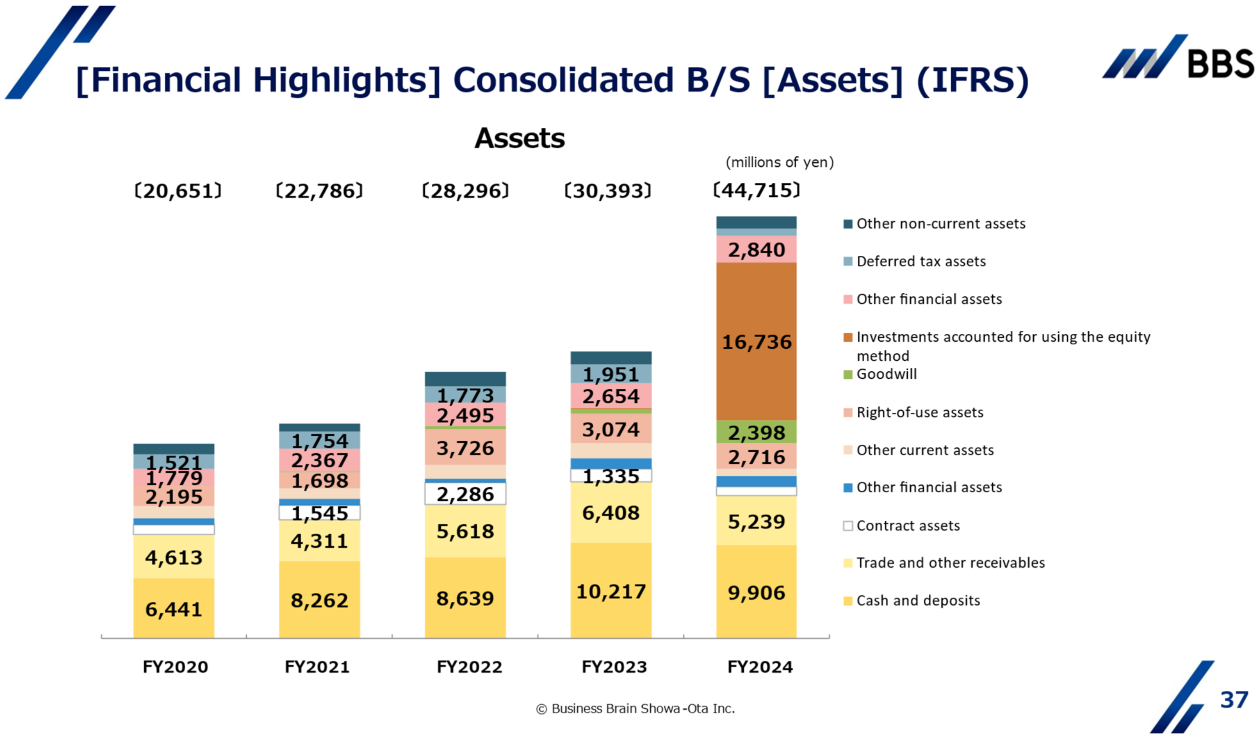
In recent years, we have seen increased customer expectations in offering a full package of services for these large projects, and although we originally specialized in BPO services for this highly specialized field that BBS was an expert in, we are now struggling to receive orders in this area.

For simple and large-volume operations, we are proceeding with the efficiency investments that I mentioned earlier and hope to introduce automation. We are currently in the phase of creating a system where we can make proposals that cover a wide range of operations.

In the outsourcing business for foreign companies, we have a business where we have English-speaking personnel who handle accounting and human resource payroll management for Japanese subsidiaries and branches of foreign companies in Japan. With the current economic situation and the number of incoming projects not increasing, we are conducting sales activities targeting small and medium-sized domestic companies. As a result, we have managed to increase both revenues and profits.

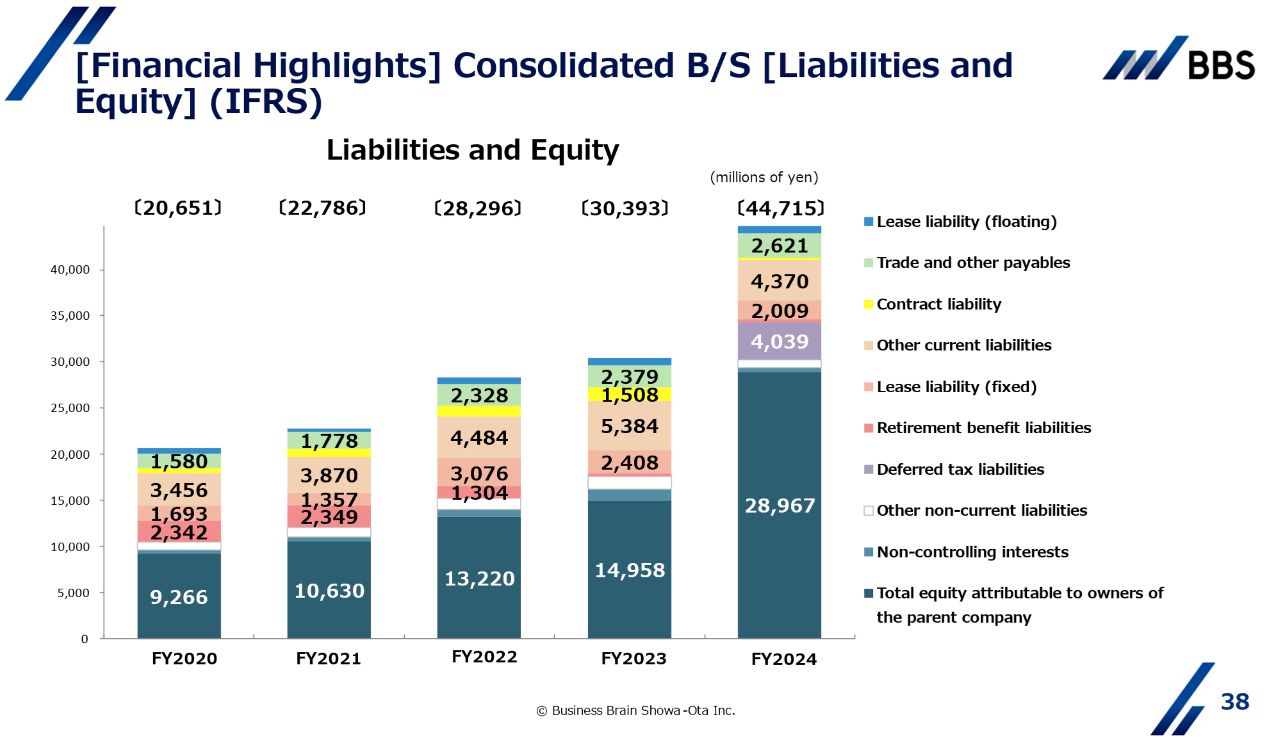
The reason for the sluggish profits despite the increase in sales is attributed to small-scale M&A and other activities, whose related expenses have slightly increased.

The last one mentions onsite BPO, which posted an increase in both revenues and profits due to the acquisition of Twinkle. Although existing businesses saw a slight increase in revenues, this can be a painful experience, as increased revenues require recruiting activities, which in turn increases recruiting costs. This leads to unchanged profit levels where profits incur later on.

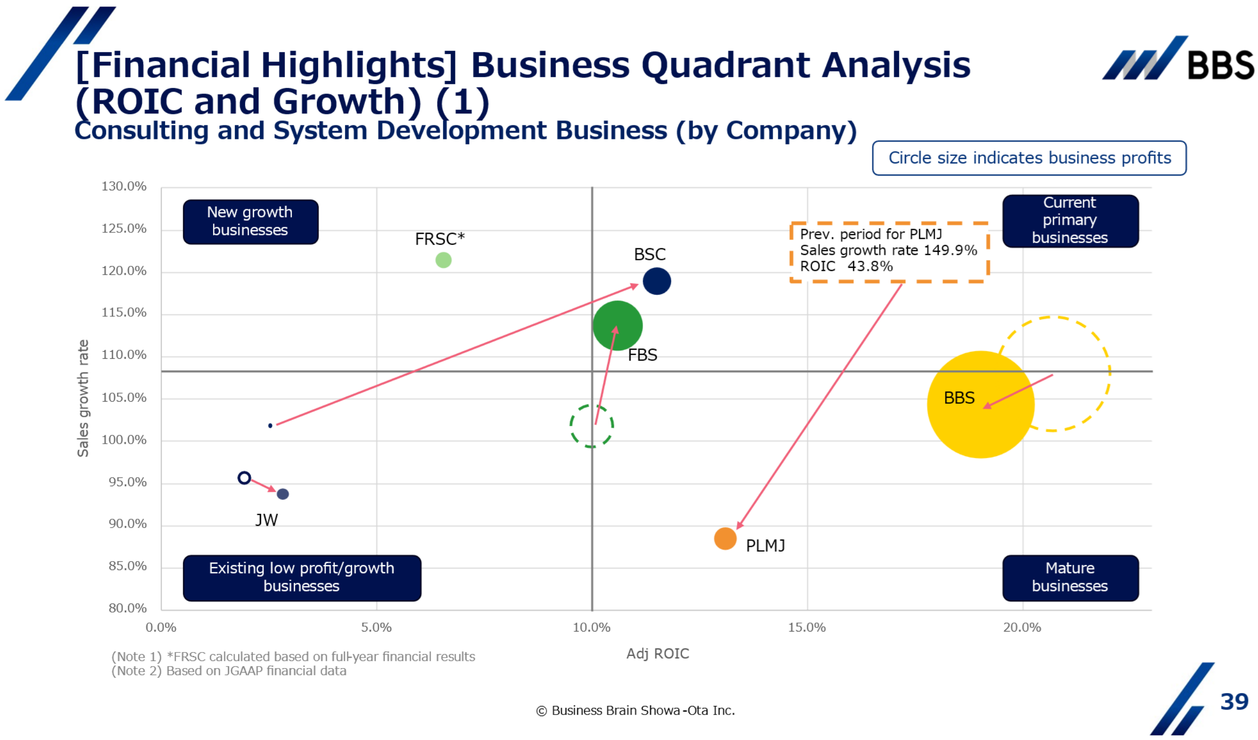


I would also like to explain a little more about the consolidated balance sheet. I will start with the asset side. I am sorry to have to repeat this many times, but the investment process through the equity method has increased significantly due to the stock revaluation and market capital revaluation following the process of turning GSX into a subsidiary. Also, the amount of goodwill has increased due to the acquisition of two subsidiaries.

Furthermore, with regard to trade and other receivables, there happened to be relatively few Acceptance projects for large-scale projects at the end of the current fiscal year. Therefore, the balance decreased.



The main reasons for the change in debt and equity are attributed to two reasons. These are the total equity attributable to owners of the parent company due to incurring profits from the control loss in the subsidiary, and the deferred tax liability relating to this profit.



As a new attempt, we have conducted a business portfolio analysis and would like to report on this as well.

This is a summary of our group's situation, which uses the quadrant analysis in METI's Business Restructuring Guidelines as a reference. Each group company is plotted on this quadrant, with the partially modified ROIC and sales growth rate shown as axes. The dotted line indicates the situation for the previous fiscal year ended March 2023. The size of the circles indicates the size of the business profits.

Although this shows the statuses by company, the relationship with sub-segments explained earlier is summarized in a corresponding table on page 22. Therefore, I hope you can refer to that page.

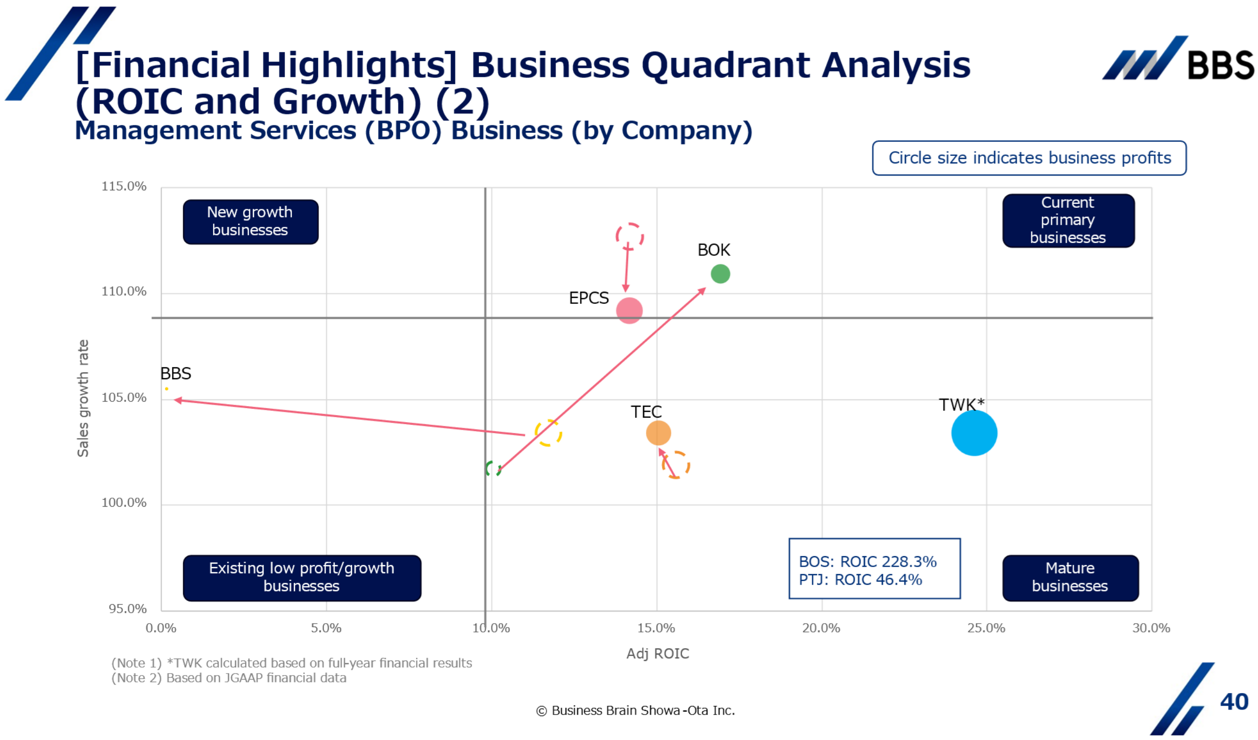
Also, for the acquisition of Fresco in the current fiscal year, which is indicated as FRSC, along with Twinkle as TWK, please note that these figures are based on the most recent one-year financial results and are slightly different from the ones actually incorporated into this consolidated financial statement.

What you are seeing now is the status of a group of companies in the consulting and systems development business. The majority of companies are shown on the right side. They are positioned on the side that exceeds 60%, which is the KPI for the new medium-term management plan. For Fresco, the ROIC is relatively low due to the PMI costs associated with the acquisition added to it. We expect this to slide to the right side of the graph during the next fiscal year.

Although Joyworks, or JW is in a situation where it seems to be stuck in the lower left quadrant, its business is mainly a temporary engineer staffing business called SES. The business details are similar to FBS and BSC and have similar positions.

The reason why it remains in this quadrant is attributed to how low its projects lie in the outsourcing hierarchy in the software industry, particularly at the secondary and tertiary levels. Another reason lies in how the number of temporary staff is low at one or two personnel, therefore lowering the price for each project.

Currently, we are working hard to replace operations and improve the system. Hopefully, as these efforts progress, we will shift toward the upper right quadrants where FBS and BSC are.



This is the status of the management services (BPO) business. First, as I explained earlier, the profitability of BBS's BPO business that is especially related to the area of outsourcing for global companies has been worsening. This is due to investments to improve efficiency and other factors. Although the situation is stuck on the left side, we believe that once that investment has run its course, it will return to its original position.

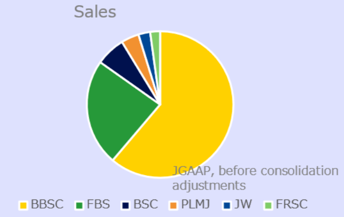
A common fact for both segments is that, although I believe we have roughly achieved our investment efficiency targets, there are still agendas in terms of growth potential. Another thing is that the BBS Group has yet to develop the businesses that should come under the new business quadrant on the upper left, and new businesses that should take the lead in the future. We would like to focus on these agendas in our medium-term management plan.

[Financial Highlights] Business Quadrant Analysis (ROIC and Growth) (3)

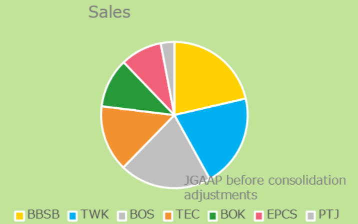
(Reference) Segments and Companies in Charge

BBS

Consulting and system development business	
Accounting system consulting and system development	BBS BSC JW
System development for financial industry	FBS
PLM support solutions	PLMJ FRSC



Management services (BPO) business	
HR and payroll outsourcing	BBS BOS
Outsourcing for global companies	BBS BOK PTJ
Outsourcing for foreign companies	EPCS
Onsite BPO	TEC TWK



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Here is the list of segments and the companies in charge, as I mentioned earlier.

[Financial Highlights] Human Capital Investment

HR Policy Revision - Building HR Policy to Achieve Goal 2030 (Note) Primarily implemented at parent company BBS

BBS

- Revision policy
  - Highly acceptable compensation that considers the market
  - Encourage taking on challenges and reward employees who achieve results
  - Pursuit of happiness in a manner that suits each employee
- Revisions - Step 1: mainly compensation policy
  - Basic salary structure: Changed structure for easier reflection of market/company situation, individual performance
  - Salary increase speed: Revised compensation amounts for high evaluations and promotions to increase overall compensation level
  - Bonus to monthly salary ratio: lowered bonus ratio and increased monthly salary primarily for lower ranks (no change in annual income)
  - Scope of deemed overtime policy: expanded to include lower ranks. Increased stablesalary considering life plans and working styles
- Results
  - Average salary increase for all employees: 86%(including regular raises), approximately 40% increase in monthly salary particularly for lower ranks
  - Ranked 5th in increase in starting salary (293,500 yen, 70,000 yen increase, from 2024/4/8 article in Nikkei Shimbun)
- Upcoming plans
  - Step 2: Plan to implement revisions to rank standards and evaluation policy inFY2025

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At the end of the overview presentation, I would like to introduce a topic on human resources, which is one of the major agendas for growth. The parent company, BBS is currently reviewing its personnel system as a measure to achieve Goal2030. In the fiscal year ended March 2024, we implemented a review of the compensation system as the first phase of this review. The point lies in wages, especially monthly ones for employees in their 20s to early 30s, where competition for hiring is the hardest. We took measures to improve retention rates or to offer an advantage in terms of the hiring process by raising monthly wages instead of annual ones.

As a result of the revision, which is shown here with specific revision details, the average wages for all employees increased by 8.6%, especially the monthly ones for the targeted employees ranking lower on the wage system. This is based on monthly wages, which have increased by nearly 40%. This will be in effect from April 2024.

As shown below, the Nikkei Newspaper also wrote an article on the ranking of increases in starting salaries for new graduates, ranking us at fifth. We managed to increase the wage to nearly the JPY300,000 level, slightly affecting application responses, especially for new graduates.

[Earnings Forecast] Consolidated Operating Results

BBS

Significant revenue increase due to group restructuring, but profit is expected to decrease due to the loss of temporary factors.

(millions of yen)

	Fiscal year ended March 2024 (actual)	Fiscal year ending March 2025 (forecast)	Difference	YoY change
Orders received	33,671	39,500	5,829	17.3%
Revenue	34,218	40,000	5,782	16.9%
Business profit	2,543	2,790	247	9.7%
Business profit margin	7.4%	7.0%	-0.4%	-
Operating profit	20,697	2,790	-17,907	-86.5%
Profit before tax	20,582	3,210	-17,372	-84.4%
Profit	14,167	2,660	-11,507	-81.2%
Profit attributable to owners of parent	14,146	2,630	-11,516	-81.4%
Ratio of profit attributable to owners of parent	41.3%	6.6%	-34.7%	-
Dividend per share	75 yen	78 yen	3 yen	-

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I would now like to continue with a brief explanation of our earnings forecast for the new fiscal year. As you can see from the part in Komiya's presentation, we have announced the earnings forecast for the fiscal year ending March 2025 will be JPY40 billion in sales revenue for existing businesses and JPY1.3 billion from M&A and new businesses, for a total of JPY41.3 billion. For the quarterly statements, we have excluded M&A and new businesses, and announced the amount based on JPY40 billion from existing businesses.

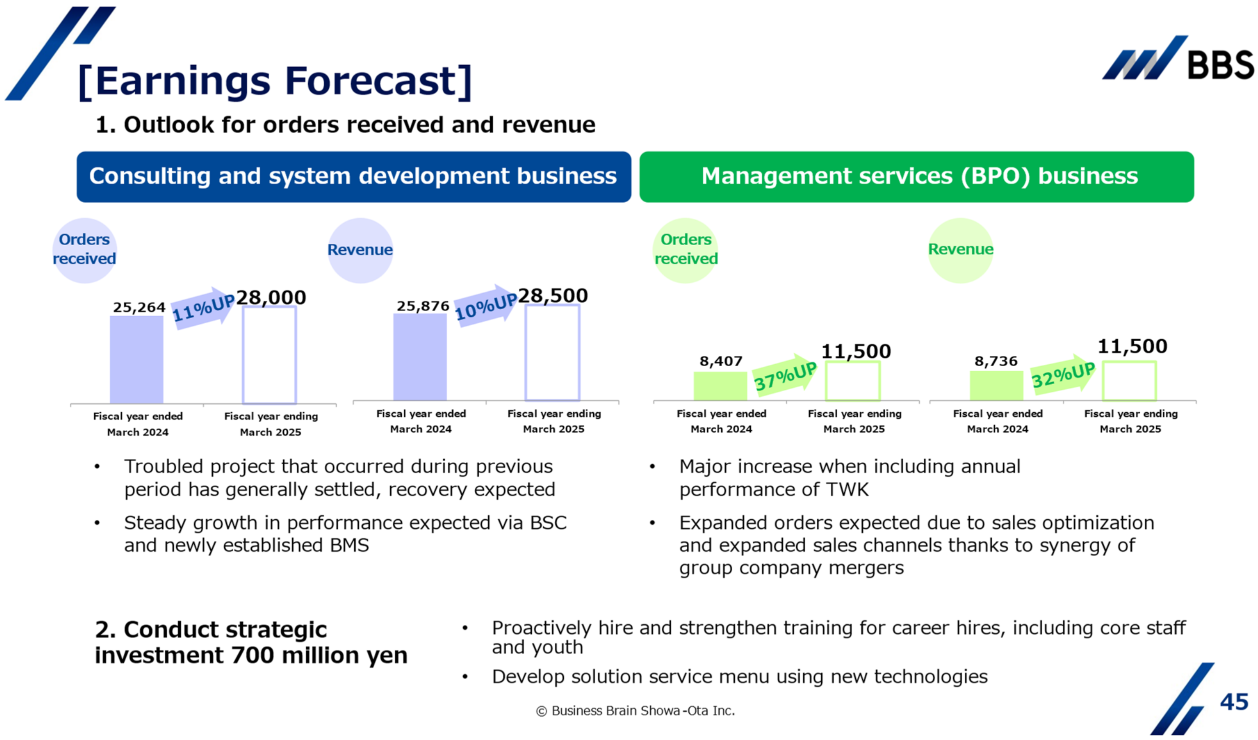
The sales revenue of JPY40 billion is a 16.9% increase YoY, which includes the annual sales of the two newly acquired companies along with the increases associated with them. We expect a 10% growth for the existing businesses.

On the other hand, although business profits have not grown much, we plan to invest relatively large amounts in the next fiscal year to launch new businesses, as mentioned earlier in the medium-term management plan. The total strategic investment was JPY700 million, an increase of JPY300 million YoY. We hope you understand that this increase has reflected poor profit rates.

The profits before taxes for the fiscal year ending March 2025 was JPY3.21 billion, whereas current profits were JPY2.66 billion. If you were to take the ratio into account, profits before taxes would be 83% for current profits, resulting in a very minor burden for corporate tax.

The reason for this is that the parent company merged with a subsidiary this past April, and the subsidiary had a large amount of loss carried forward in terms of taxes. Until now, we have been evaluating the recoverability of losses carried forward by this subsidiary, depending on its profit plan. We implemented a recovery process after judging there was no possibility for recovery. By merging with the parent company, the judgment depends on whether we can recover taxable income from the parent company and the merged subsidiary. Eventually, we assumed that it’s recoverable and plan to calculate it as carried-over tax assets.

As a result, the amount is deducted from the tax amount, reducing the tax burden. The affected amount accounts for approximately JPY400 million. However, whether or not we can recover this amount depends on our future performance. Since this is only temporary, we have excluded it from the calculation for the dividend payout ratio and announced a dividend forecast of JPY78.



The breakdown by segment is as shown. Since we are running a little late, I would like to conclude the presentation for the financial results overview and the financial forecast.

I would like to inform you of one thing regarding the printed materials we provided today, which contain the outdated information regarding the new medium-term management plan that I explained earlier. I hope we can upload these contents separately with today’s presentation video on our website.

We have just finished filming and are currently editing the video. We hope to make it available on our website as soon as possible. If you have the time to spare, we would appreciate it if you could refer to them.

Thank you very much for your time today.

Moderator: Thank you for your explanation.

Question & Answer

Moderator [M]: We will now begin the question-and-answer session. This IR meeting will be completely transcribed and published, including the question-and-answer session. Therefore, please keep in mind that if you mention your company name and full name when asking a question, it will also be disclosed.

If you have any questions, please raise your hand. The staff in charge will bring the microphone over. Any questions? Anything else?

Since there are no questions, this concludes the Business Brain Showa-Ota, IR meeting. Thank you, Mr. Komiya, Mr. Uehara. I would also like to thank everybody for their participation.

[END]

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