Together for Value

BBS

Business Brain Showa-Ota Inc

Q2 Financial Results Briefing for the Fiscal Year Ending March 2025

November 21, 2024

Event Summary

[Company Name]	Business Brain Showa-Ota Inc
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[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]	15
[Number of Speakers]	3

Kazuhiro Komiya	President
Hitoshi Uehara	Senior Executive Officer, CFO
Yukinori Okada	Executive Director, Corporate Planning Dept., Administration Div.

Presentation

Moderator: Thank you for waiting. It's now time to start the financial results briefing of Business Brain Showa-Ota Inc.

Let me first introduce the three attendees from the Company.

First, Mr. Kazuhiro Komiya, President and Representative Director.

Komiya: My name is Komiya. Thank you for attending today.

Moderator: Thank you. Next, Mr. Hitoshi Uehara, Senior Executive Officer, CFO.

Uehara: My name is Uehara. It is a pleasure to be here.

Moderator: Thank you. Next, Mr. Yukinori Okada, Executive Director, Corporate Planning Dept., Administration Div.

Okada: My name is Okada. It is a pleasure to be here.

Moderator: Thank you. Today, Mr. Komiya and Mr. Uehara will each give remarks. After their presentations, we will have time for a question-and-answer session.

Now, let me ask Mr. Komiya to start.

Komiya: Hello, everyone. I am Komiya, President of the Company. The sudden cold weather made me suffer from sore throat, so forgive me if my voice is hoarse and difficult to hear.

Thank you very much for participating in our financial results briefing today.

I will report on the most recent progress of BBS 2026, the ongoing medium-term management plan. Then, Uehara, Senior Executive Officer, will give an explanation of the financial results.

Table of Contents

3

As shown, I will cover these points in my presentation.

First, I will explain the highlights for Q2 FY2024, then reiterate the outline of our mid-term management plan and discuss the progress of our KPI plan and growth strategy.

Highlights for the First Six Months (Interim) of FY2024

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Revenue, business profit and profit

Revenue	Business profit	Profit attributable to owners of parent
18,064 million yen	**1,175** million yen	**992** million yen
Year-on-year **6.3%** ↑	Year-on-year **13.9%** ↓	Year-on-year **92.5%** ↓
Progression rate **46.2%**	Progression rate **49.0%**	Progression rate **42.4%**

These are the highlights of our business performance for Q2 (interim period) of the current fiscal year. A summary of our business performance is shown here.

Sales revenue totaled JPY18,064 million, a 6.3% increase over the same period last year, due in part to contributions from Fresco and Twinkle, which were newly acquired in the previous fiscal year. The progress rate compared to the full-year forecast announced in August is now 46%.

Business profit was JPY1,175 million, down 13.9% from the same period last year. Despite Twinkle's contribution, the lack of orders in H2 of the previous fiscal year resulted in lower capacity utilization in existing businesses, and it took time for increased personnel costs to be reflected in selling prices.

Meanwhile, the progress rate is now almost 50%. This is because interim business profit increased approximately JPY200 million compared to the profit forecast that was revised down in August. However, it still fell short of the initial forecast by approximately JPY200 million, which means the Company has recovered some of the downward revision.

The resulting interim net profit attributable to owners of the parent company amounted to JPY992 million. The YoY decrease was more than 90%, due in part to temporary factors such as the deconsolidation of GSX last year.

I will stop here with the business results and let Uehara report on the details later. From now on, let me explain the progress of the medium-term management plan.

[Business Model]

First, business model.

The BBS Group provides consulting services to assist customers in understanding their current situation and planning; services to support the practical use of information technology and system implementation; and management services where customers outsource their operations to us.

We offer these services seamlessly under the BBS cycle that further improves and streamlines our customers' operations. Although there are competitors in each of these business fields, we believe that only the BBS Group can provide these services seamlessly and in unison with our customers.

In this mid-term management plan, we have also set KPIs and are working towards achieving them.

Reprint

Basic Policy for Achieving Goal 2030

BBS

Growth Story to Achieve the Goal

B Back Office Comprehensive Supporter

- **Total support for corporate back office operations** by expanding our business domains around accounting
- Provide **solutions for all phases** from Business Design Development Operations

CONSULTING / SYSTEM INTEGRATION / MANAGEMENT SERVICE

B Become a new management partner

- Becoming a **back office transformer** able to support new technologies and working styles
- From solving customer problems to **co-creation with the customer** Backup for digital management

S Sustainability Management / Strengthening human resources

- We support our customer's sustainability management in pursuit of the **leverage effect of sustainability management**
- **HR development that maximizes performance** leveraging AI and DX appropriately

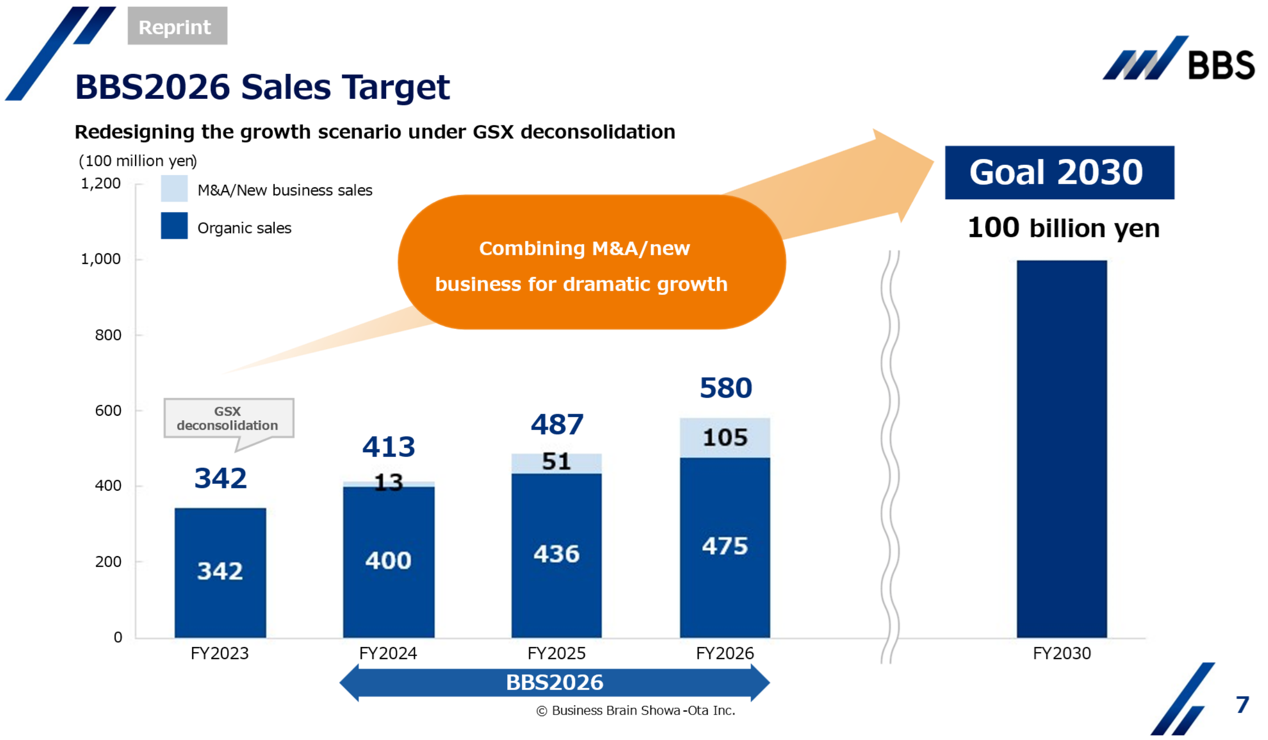
6

The following three items have been established as our basic policy toward the realization of our long-term goal, Goal 2030.

Becoming a comprehensive corporate back-office supporter means expanding our business domains centering around accounting field by targeting the customers' back-office function as our core expertise. In there, through the BBS cycle, we will provide services in all phases from business design to operations.

Becoming a new management partner suited to new ways of working and technologies means while we serve as a back-office transformer who promotes new ways of working with new technology ourselves, we also strive to become a promoter of the new way of management through the co-creation activities with our customers.

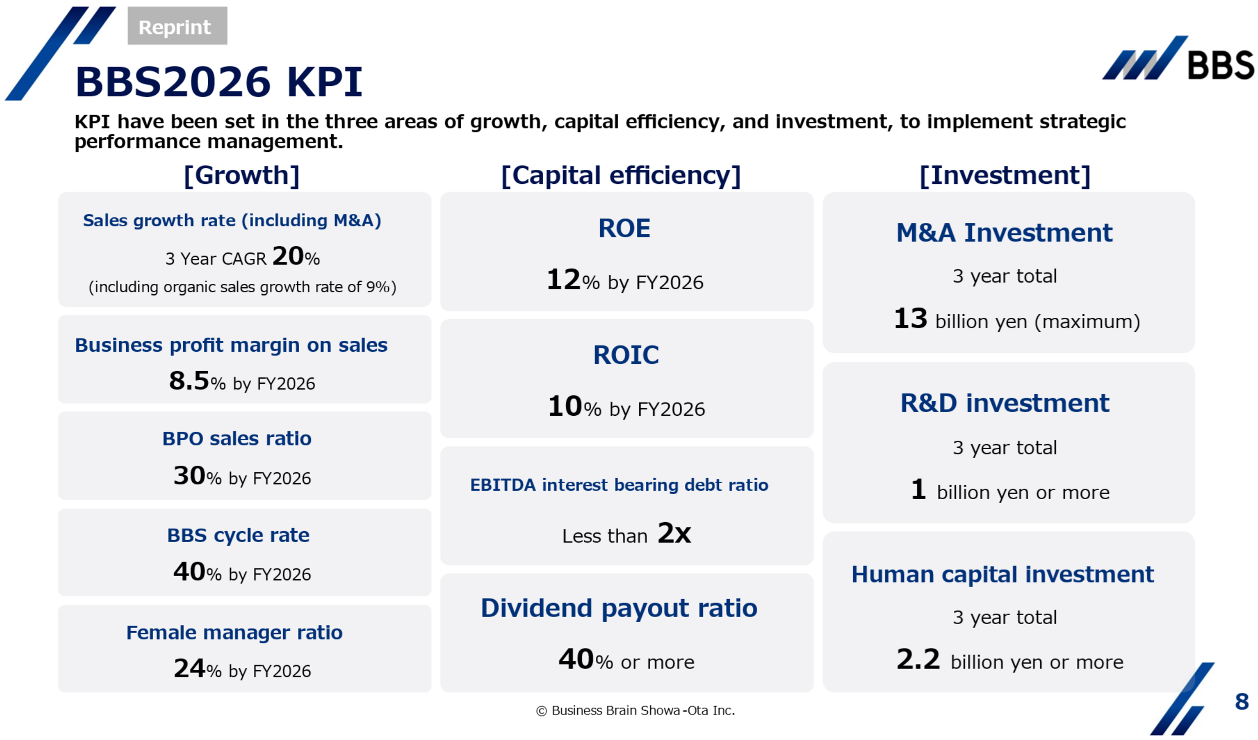
Promoting sustainable management and strengthening human resources means not only practicing sustainable management by the BBS Group, but also supporting our customers' sustainable management. We will also promote the development of human resources who can maximize their own performance through the appropriate use of the latest technologies such as AI.



In the new medium-term management plan, BBS2026, we have set a sales target of JPY58 billion in three years to ensure we achieve the sales target of JPY100 billion in Goal 2030.

Assuming an average sales growth rate of 9% for existing businesses, their sales will reach JPY47.5 billion in three years. It will leave a shortfall of JPY10.5 billion against JPY58 billion target, and we plan to fill it primarily through M&A and new businesses.

In this mid-term management plan, we will aggressively pursue M&A and the development of new businesses to achieve dramatic growth.



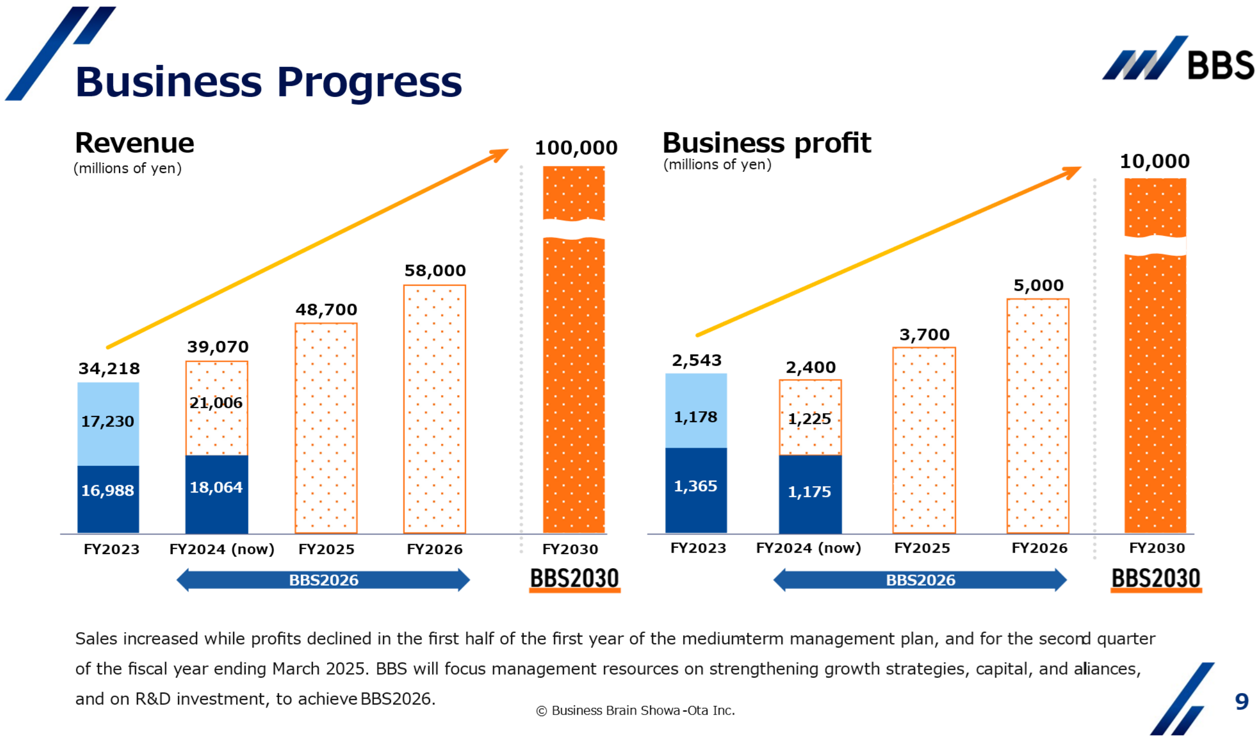
In this mid-term management plan, we have set 12 KPIs in the three areas; growth, capital efficiency and investment. We believe that the BBS Group presents a solid picture of what we are aiming for, even in terms of the figures.

Specifically, in the growth area, in addition to profit margin on sales and BPO sales ratio, we also have BBS cycle rate, our proprietary indicator, and the ratio of female managers which is considered to be important in human capital management. The BBS cycle rate is a KPI to promote our unique business model, as I explained at the beginning.

In terms of capital efficiency, in addition to ROE and dividend payout ratio, we use ROIC and interest-baring debt to EBITDA ratio as KPIs to achieve efficient management while maintaining financial discipline.

Regarding investment, we have set KPIs for M&A, R&D, and investment in human resources, and will promote the proactive use of funds.

Business Progress



As a recap, for Q2 of the fiscal year ending March 31, 2025, we reported sales revenue of JPY18,064 million and business profit of JPY1,175 million, exceeding the figures in our earnings forecast announced in August. We believe that we will be able to achieve our full year forecast of both sales revenue and business profit for the fiscal year ending March 31, 2025, which is JPY39 billion JPY2.4 billion respectively.

KPI Progress under BBS2026

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[Growth]

Sales growth rate (including M&A)
6.3% (-3.6% YoY)
(organic sales growth rate of -0.3%)

Business profit margin on sales
6.5% (8.0% YoY)

BPO sales ratio
29.5% (23.2% YoY)

BBS cycle rate
33.5%
(31.0% at the end of the previous period)

Female manager ratio (BBS non-consolidated)
15.7%
(14.8% at the end of the previous period)

[Investment]

M&A Investment
No significant progress

R&D investment
70 million yen
(Investment progress 7.0%)

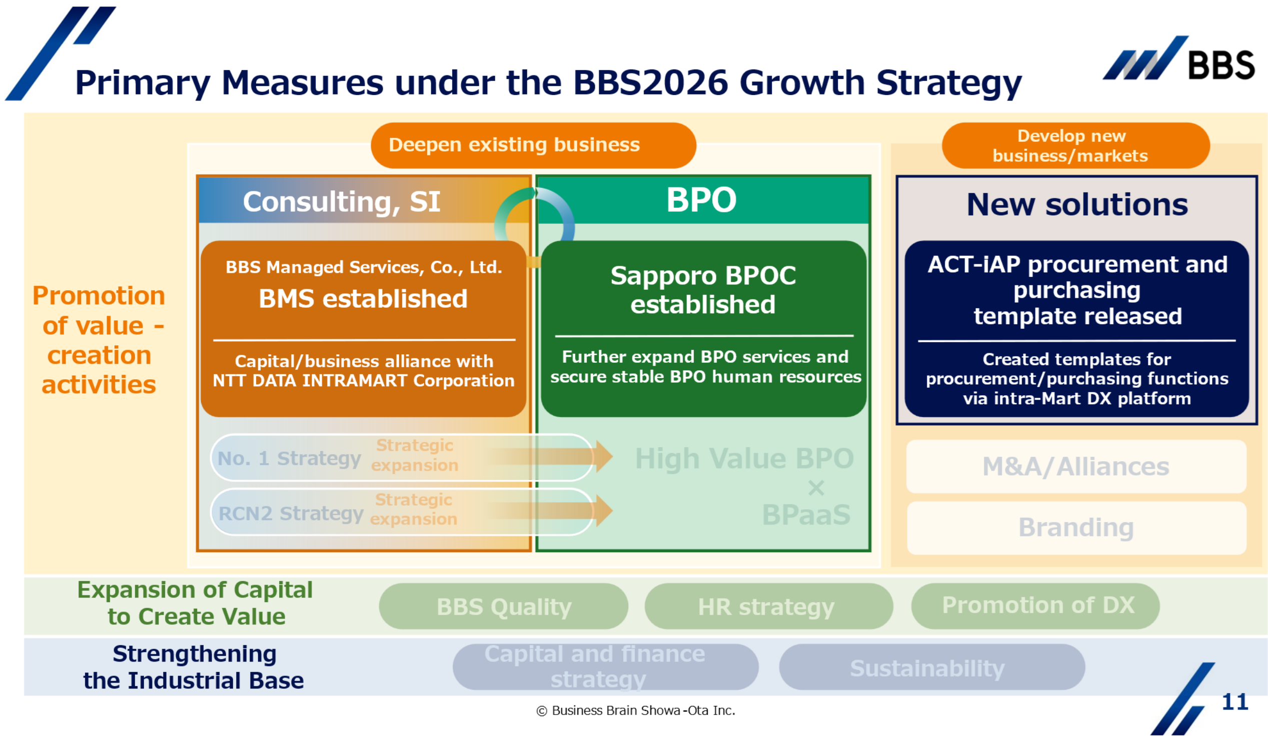
Human capital investment
200 million yen
(Investment progress 8.9%)

The progress of the KPIs is as shown here.

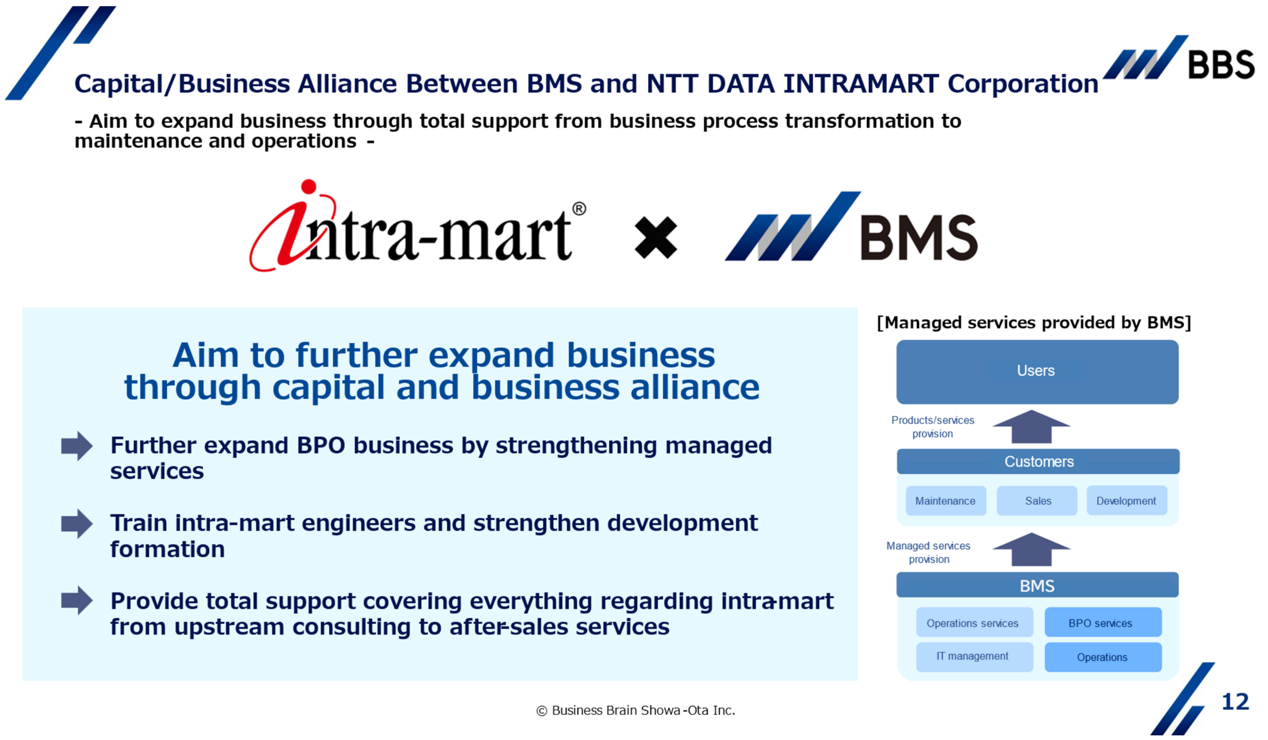
As for the sales growth rate as part of the growth KPIs, we acquired two new companies to make up for the negative growth in the previous fiscal year due to deconsolidation of GSX etc. However, due to a drop in orders in the western Japan region in Q1 and insufficient sales due to troubled projects, we have not reached our target. Similarly, for the business profit margin, insufficient sales in Q1 resulted in a shortfall against the target. The BBS cycle ratio reached close to the targeted ratio that we had expected to reach at the end of the current fiscal year. This is due to the effect of Fresco and Twinkle that newly joined our group.

Regarding KPI progress in investments, there was no significant progress in M&A. With regard to R&D investment, we are focusing on DX-related investments. With regard to human capital investment, we were able to secure the number of new hires initially planned through aggressive recruitment as well as education and training programs. We are also moving forward with new initiatives on education.

In this mid-term management plan, we have listed material issues, or materiality. We then broken down the growth stories into individual strategies, based on materiality.



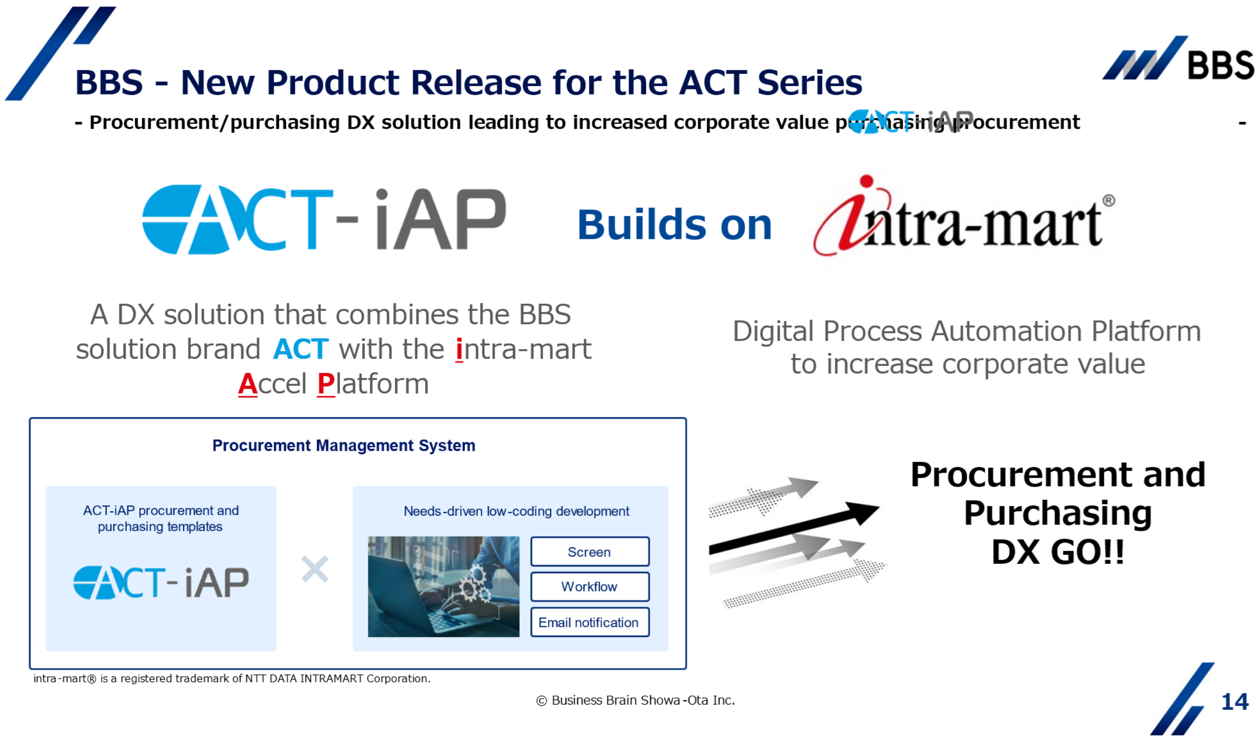
Let me explain the measures we have implemented through September.



On August 1, we entered into a capital and business alliance with NTT DATA INTRAMART Corporation.

Through this alliance, we aim to strengthen our managed services and further expand our BPO business. We believe that the alliance with them will contribute to further development of both companies' businesses by training engineers and strengthening the development system at BMS, our group company.

Furthermore, to expand our BPO business, we opened the Sapporo BPO Center in July. Sapporo is the fourth most populous city designated by government ordinance, but there are few companies that had head office functions there, making it easier to secure human resources for finance and accounting operations. That was one of the reasons we opened our site in Sapporo. Our plan is to have 100 employees in three years, and we are making steady progress.



In April, we started offering a new template for procurement and purchasing operations under our product brand ACT Series.

Through this, we will provide our accumulated know-how of purchasing and procurement operations through the latest DX platform. We believe that this will contribute to our customers' DX promotion and also give us a foothold in the purchasing, procurement, and DX markets. We have already received inquiries from several companies and are planning further functional enhancements.

GHG Emissions Targets Base Year Change and New Scope 3 Reductions Target

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- **Applied to initiative to obtain SBT certification (November)**
- **Changed base year for consistency with business performance**
- **Established Scope 3 reduction target to clarify reduction targets**

Main items	Previous	New standard	Notes
Base year	2019	2023	Changed Scope 1 + 2, added Scope 3 under new standard
Scope 3 target (short-term)	–	2030: 18%	–
Scope 3 target (long-term)	–	2050: Net zero	–

15

Finally, in the area of sustainability promotion, to strengthen our business foundation, we applied for Science Based Target, or SBT certification in November to promote climate change countermeasures in the field of environment.

Science-based GHG emission reductions are recognized as a rational response to greenhouse gas reductions, and we are committed to implementing highly effective measures to combat climate change.

These are the specific initiatives for this fiscal year in the pursuit of the growth strategy of the medium-term management plan.

That concludes the progress of the medium-term management plan. Lastly, let me share with you a few topics.

The BBS Group's efforts in the production management project were highly evaluated and awarded the Project of the Year Award by our business partner, Business Engineering Corporation. This is the third consecutive year that we won awards from them.

We received a project award from NTT DATA BIZINTEGRAL Corporation in recognition of our project orders and stable project promotion in multiple industry sectors. In addition, Primal Inc., has honored us with an award for our business development and project track records in Thailand, as well as our contributions in many other areas.

We will continue to build relationships that allow us to grow together with our partners.

In terms of social contribution activities, we continue to support the Japan Para-Ski Federation and assist in the operation and promotion of Japan Para-Nordic Ski Team. And as an opportunity to foster creativity and expression in the children who will lead the next generation, we sponsored the BBS Painting Contest, and the selection of the Grand Prize and other prizes for the 7th contest was held. The winning entries are posted on our website, so please take a look at the children's masterpieces.

That concludes my part of the presentation. Uehara will now give an overview of the financial results. Thank you.

Highlights for the First Six Months (Interim) of FY2024

BBS

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Revenue	Business profit	Profit attributable to owners of parent
18,064 million yen	**1,175** million yen	**992** million yen
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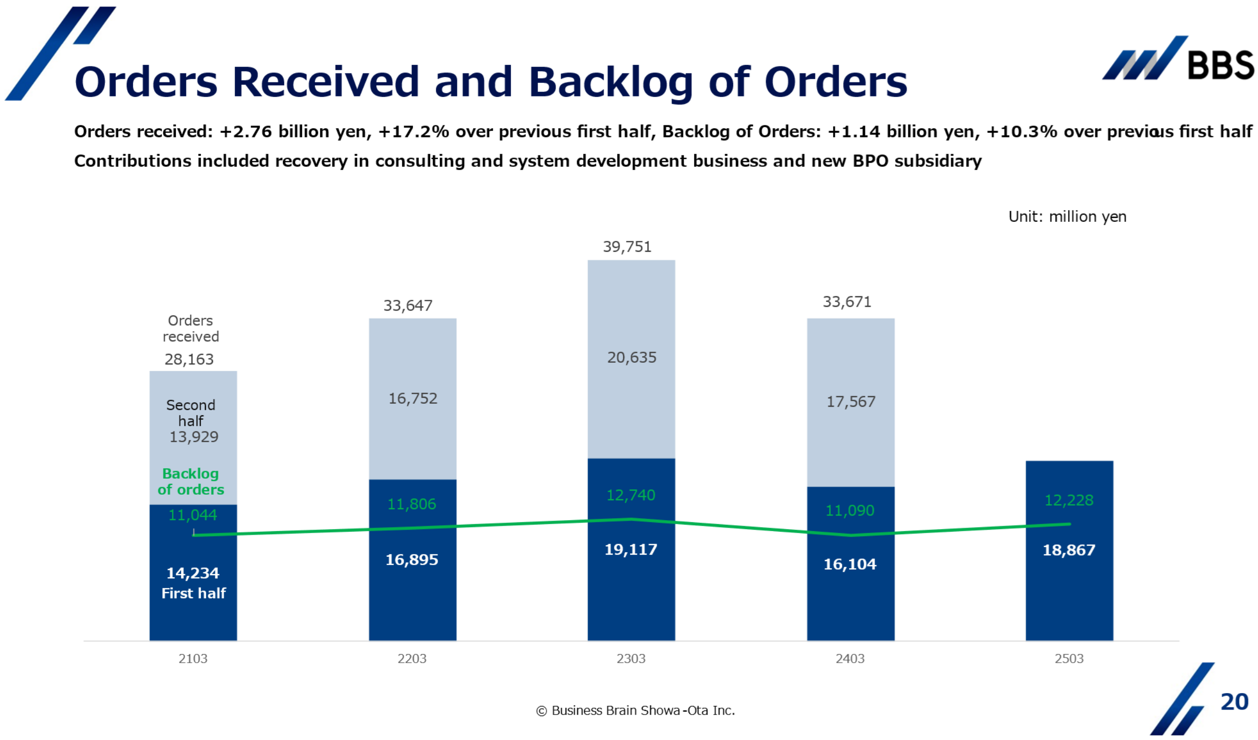
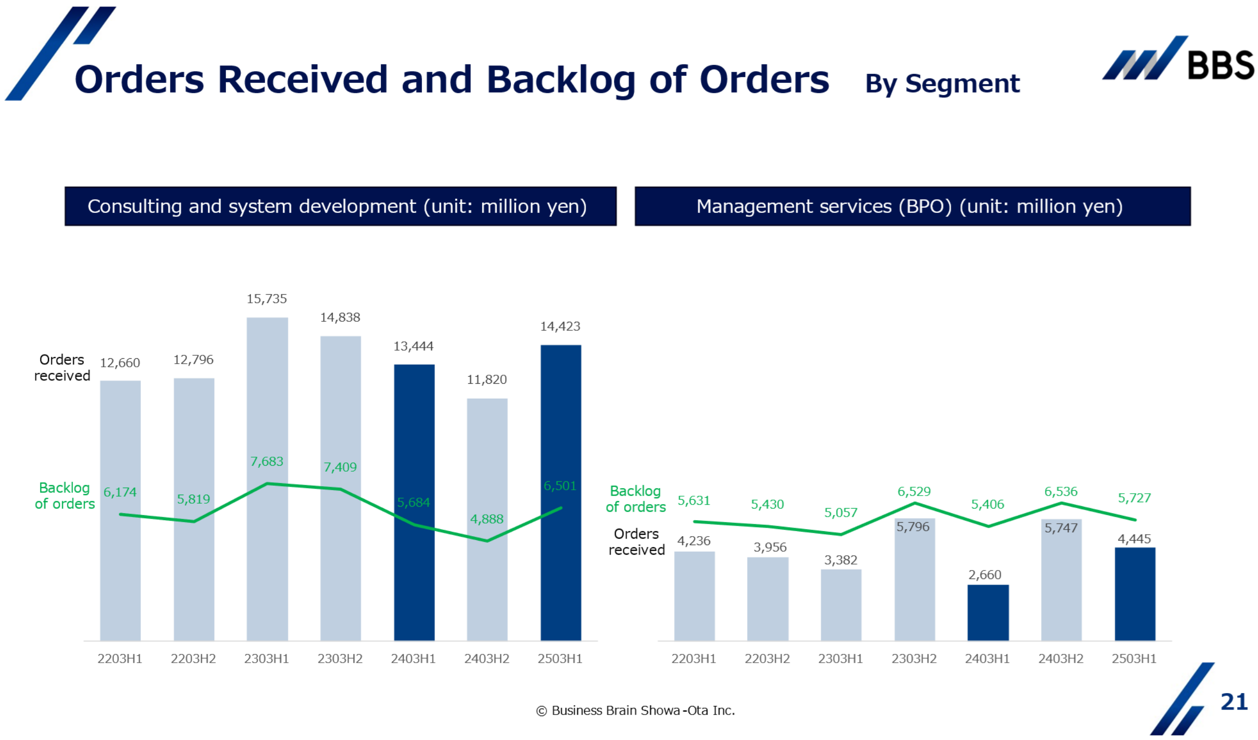
Uehara: Hello, my name is Uehara. I will explain the business results for Q2 of the fiscal year ending March 31, 2025.

Highlights of the business performance were already explained by Komiya at the beginning, so I will not go into them. I will discuss individual situations, starting with the orders received.



Orders received during the period under review increased by JPY2.76 billion, or 17.2%, compared with the same period last year. As a result, the order backlog increased 10.3%, to JPY1.14 billion, compared with the same period last year.

Although some of the increase was due to the acquisition of subsidiaries, in general, we believe that the situation has recovered considerably from the previous fiscal year, especially from H2 of the previous fiscal year.



I will explain the details by segment. Here is the status of orders by each segment.

First of all, regarding the consulting and system development business on the left, orders received decreased for four consecutive terms from 2022 to 2023 until H2 of the previous fiscal year, although there was a factor of exclusion of GSX from the scope of consolidation. However, it hit bottom in the current interim period and started to recover. Orders received exceeded those in H1 of the previous fiscal year.

Orders for the management services business on the right also increased significantly with the acquisition of Twinkle.

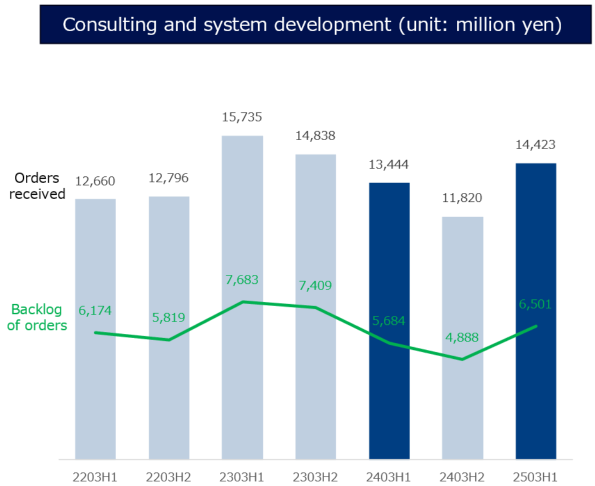
Thus, in the current interim period, the consulting and system development business as well as the management services business received more orders compared to H1 of the previous fiscal year.

I will discuss the details of orders received within each segment.

Orders Received and Backlog of Orders

Consulting and System Development

Orders received: +980 million yen, +7.3% over previous first half



- Overall strong start to current period despite challenges during previous period.
- Recovery of orders in western Japan region for an increase of approx. 300 million yen.
- Achieved major increase to temporary factor of large order at approx. 400 million yen, but impact on sales for current fiscal year is limited due to maintenance and operations contract for three years.
- Approx. 400 million yen impact from newly added Fresco and BBS Managed Services.

22

In the consulting and system development business, orders received were up by JPY980 million, up 7.3% from H1 of the previous fiscal year.

As you can see in the third bullet of the comment, there was a one-time factor of about JPY400 million in large orders, but even excluding this, the increase was nearly JPY600 million.

In addition to the steady acquisition of orders in the east Japan region, the west Japan region is emerging from the stagnation in order-winning activities caused by the troubled projects since last year. This has resulted in an increase of approximately JPY300 million in the west Japan region alone. We believe this is a major factor.

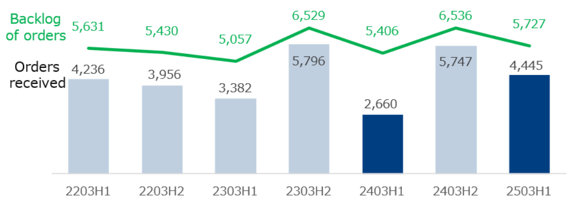
On top of this, we have other factors that contributed to order increase, such as Fresco, which was acquired last year, BBS Managed Services which effectively started operations from this fiscal year, and a smooth launch of joint venture with INTRAMART which was mentioned earlier.

Orders Received and Backlog of Orders

Management Services (BPO)

Orders received: +1.78 billion yen, +67.1% over previous first half

Management services (BPO) (unit: million yen)



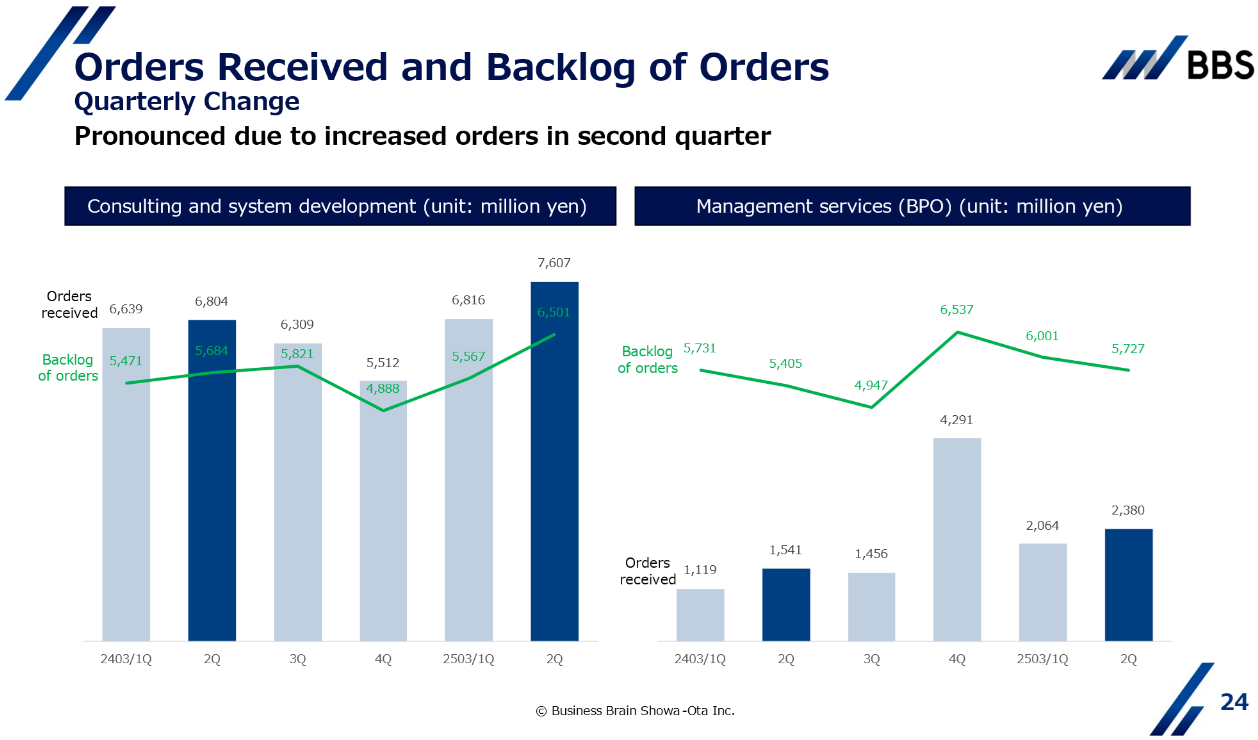
- Approx. 1.2 billion yen orders for newly added Twinkle
- Contribution included major 400 million yen order for seven-year BPO HR payroll contract

23

Next is the management services business.

Orders received increased 67.1%, or JPY1.78 billion, from H1 of the previous fiscal year. As shown on the second bullet here, there was also a large order of JPY400 million as a one-time factor. It also includes JPY1.2 billion of orders received at Twinkle, which was acquired last year. These two are the major factors behind the increase.

In the management services business, most contracts are for one year, and the number of orders received is usually recorded at the change of the fiscal year. As in this case, large multi-year contracts come in irregularly, so we think it would be better to look at trends in orders received or order backlogs over a period of one year or so, rather than over the short span of a quarter or half-year. From this perspective, we believe that our existing businesses are growing steadily.



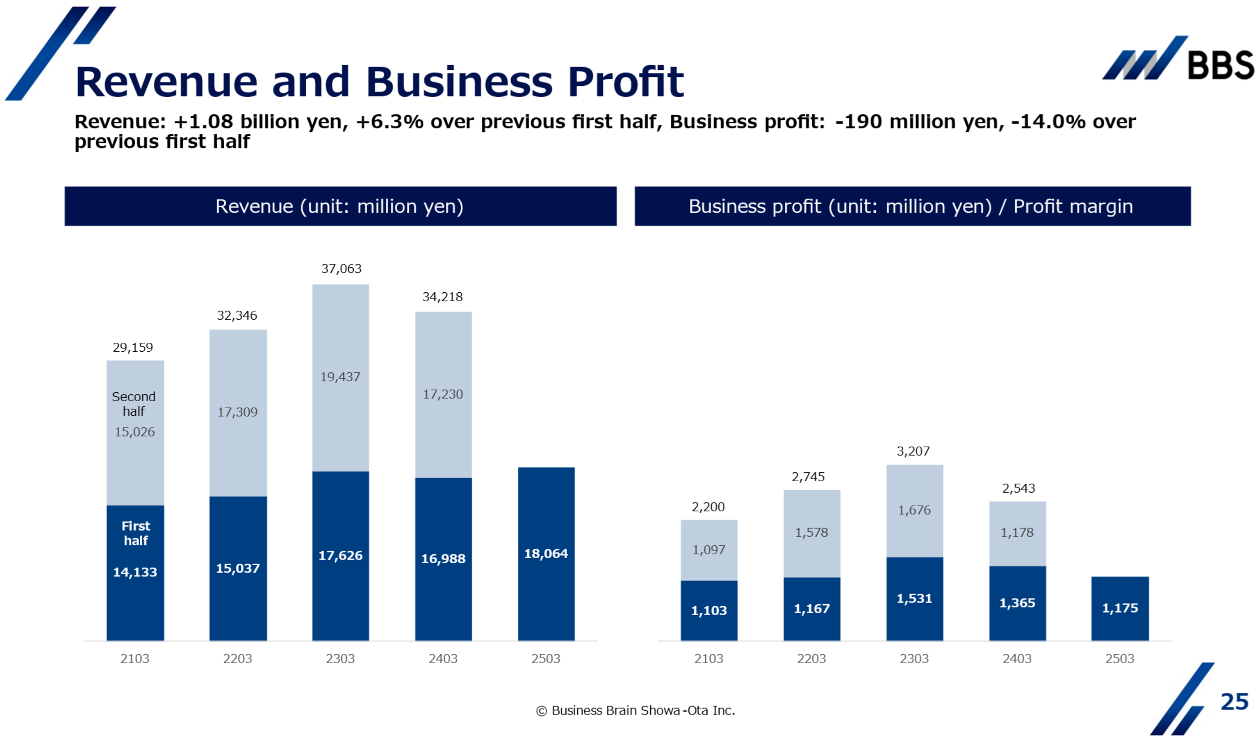
This shows the quarterly trend.

If you look at our consulting and system development business, you will see that it has improved significantly in Q2 this year.

In past years, the typical quarterly pattern for orders has been for them to increase in Q2, dip slightly in Q3, and then increase significantly in Q4. However, it was not the case in the previous year where this pattern didn't take place, and orders in Q4 were lower than the ones in Q3. The order situation was very severe.

As for the current fiscal year, we do not yet have a clear visibility of the situation. However, as I mentioned, the east Japan region is performing well, so we do not expect us to fall into the same situation as previous year. Whether we will be able to increase orders in Q4 will depend on how much effort we can make for the western Japan region.

In terms of the trend of western Japan region, it is on the recovery track, but we started to hear that the outlook for the automobile industry and other industries is harsh, and we are wondering how much of an impact this will have on the region. We plan to carefully monitor the situation.



This is the status of sales revenue and business profit.

In accordance with the medium-term management plan that started this fiscal year, we announced the forecasts of sales revenue of JPY19 billion and business profit of JPY1.34 billion at the beginning of the fiscal year. However, as you have just seen, the impact of the order shortfall in H2 of the previous fiscal year was significant. This made us revise the forecast at the earnings announcement for Q1. We apologize for that.

As a result, sales revenue resulted in JPY18 billion, almost in line with the revised forecast, and business profit at JPY1,175 million, JPY235 million above the revised forecast. Compared to H1 of the previous year, sales revenue was up by JPY1.08 billion, a 6.3% increase, and business profit was down by JPY190 million, a 14% decrease.

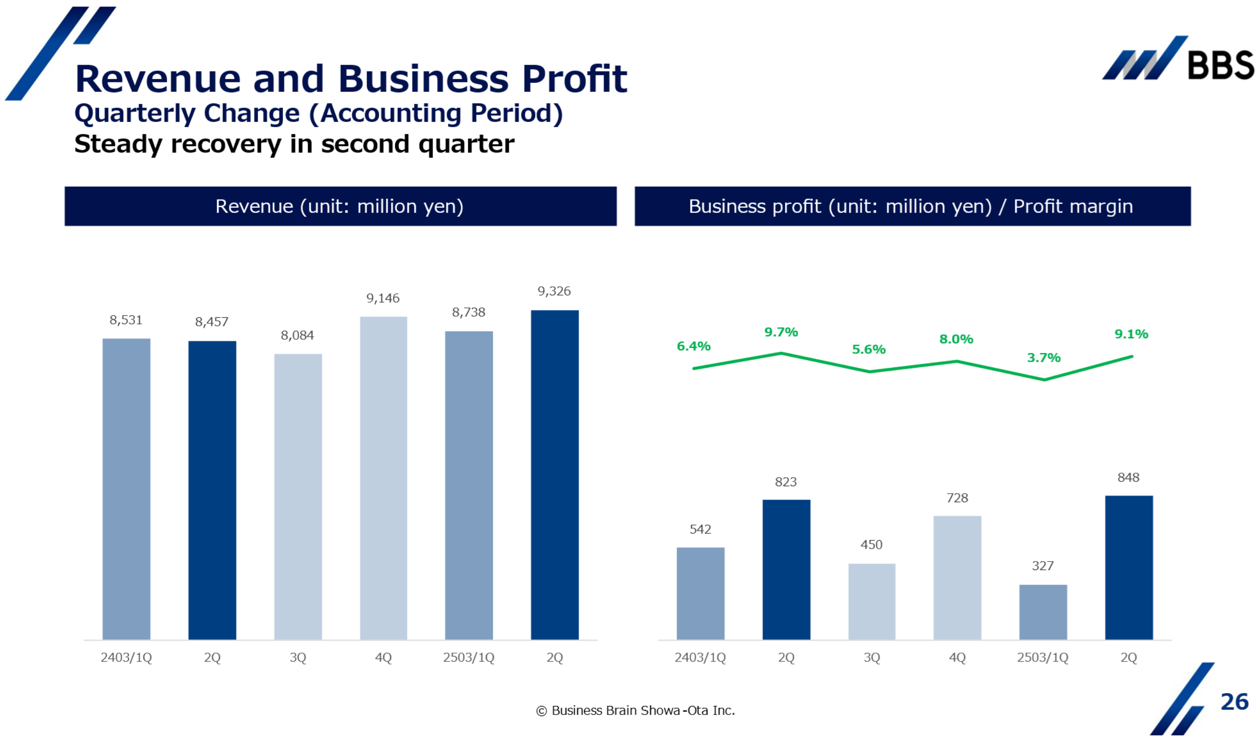
Despite the increase in sales revenue, business profit decreased. This resulted in a downward trend in the business profit margin, which stood at 6.5%, 2 points short of the target of 8.5%.

One of the main reasons why profits have not kept pace with the sales increase is the increase in personnel costs. In particular, labor costs in the system development business, such as SEs, have soared significantly, and the wage level in the mid-career recruitment market has risen considerably.

This led to soaring costs for mid-career recruitment. In addition, we are implementing various measures, such as base salary increases to reduce employee turnover, which is a factor in the overall cost increase.

In terms of the pass-through of the increased cost into selling prices, in the consulting and system development business, more than 40% of all orders are so-called stock type of recurring orders such as maintenance contracts. In the management services business, more than 95% of orders are stock-based recurring orders. Therefore, it takes time to reflect the cost increase into selling prices, and sales increase trail the orders.

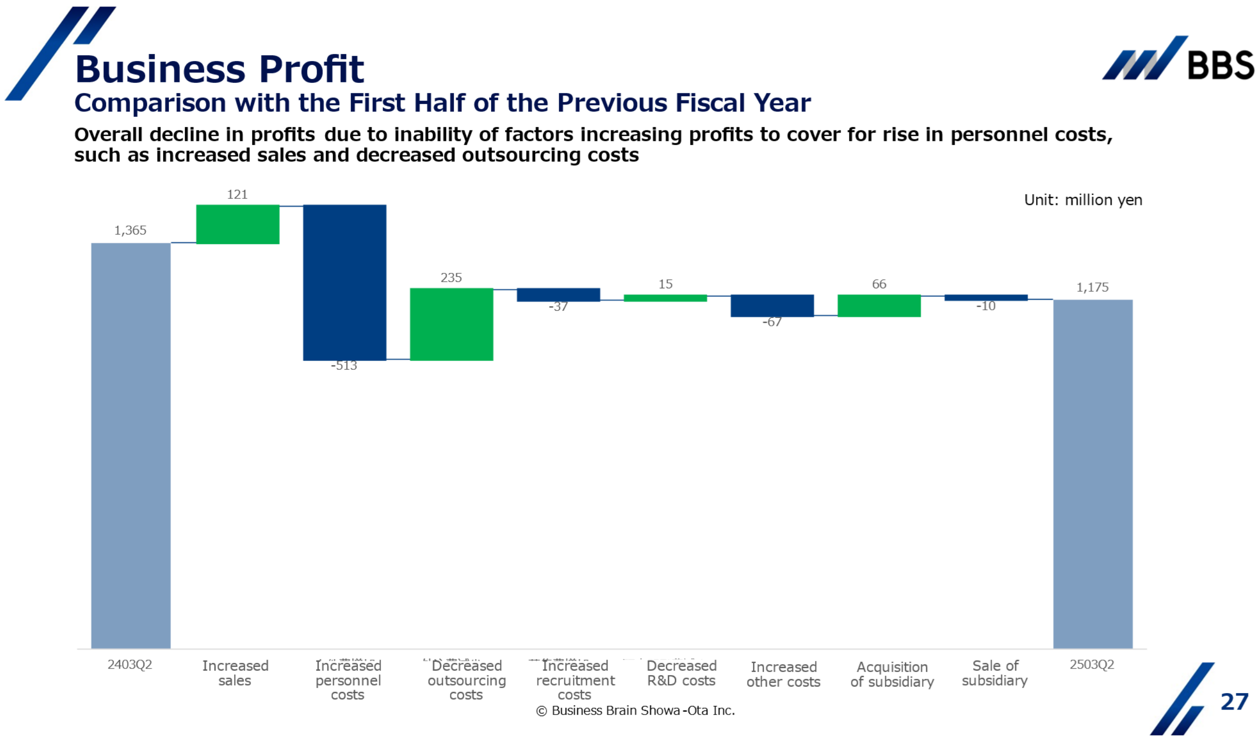
Due to this, the situation was tough in H1 of this year, especially in Q1.



This shows the quarterly trend. As you can see, business profit in Q1 was very much depressed.

On the other hand, the profit margin improved significantly in Q2, and we were able to secure sizeable profit due to an increase in the utilization ratio as a result of sales growth, as well as progress in price pass-through.

Although we have recovered to last year's level in terms of amount, if you look at H1 as a whole, we are still unable to catch up with the decreased profit in Q1. That is the situation in H1 this year.



This is a comparison of business profit against H1 of the previous fiscal year, with the factors for increase and decrease. The green areas are factors for profit increase, and the dark blue areas are factors for profit decrease.

As you can see, the largest negative factor was an increase in personnel costs, which amounted to JPY513 million. This is offset by positive factors such as profit increase due to sales growth, worth JPY121 million, and a decrease in outsourcing costs, worth JPY235 million. Overall, these two factors alone were not enough to offset the decline in profit in full, resulting in lower profit compared to H1 of the previous year.

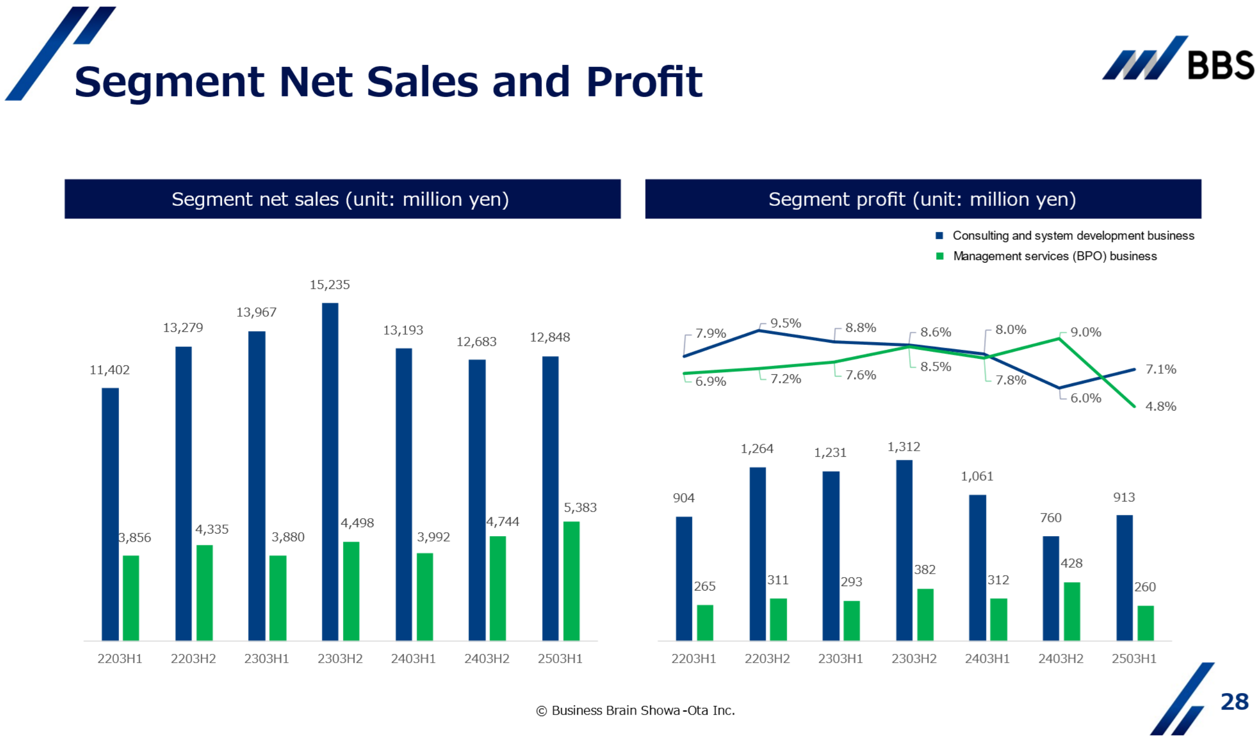
As for the decrease in outsourcing costs, there could be various factors that influence that, such as an increase in internal hiring, an increase in order placements within the group, or factors attributable to projects. One factor behind the fluctuation of outsourcing costs, we think, is the shift to in-house production within the group,

One of the objectives of M&A over the past few years has been to keep various operations within the group rather than outsourcing them and to prevent the outflow of profits to external parties. In that sense, it is gradually showing effect.

This is the status of the interim period of the current fiscal year.

We try to gradually pass the cost increase into selling price amid the overall environment with continued inflation of various costs such as personnel costs. However, in reality, it is difficult to reflect it in a timely manner and ensure 100% pass-through. Therefore, we inevitably see the profit margin being on a downward trend.

Under the circumstances, our group is strengthening R&D investment to improve productivity by utilizing new technologies such as AI, etc. We are also promoting the launch of a packaged product such as ACT-iAP mentioned earlier by Komiya, to expand our business from the so-called labor-intensive business to licensing and other business, for example, so that we can adapt ourselves to modern environment.



This shows the trends in sales revenue and business profit by segment.

The dark blue represents the consulting and system development business. If we apply typical seasonality for H1 vs H2 in the past years, sales in H2 FY2023 should have been higher than that of H1 FY2023. However, that didn't happen in H2 last year. If you look at the interim period for this year, it is recovering compared to H2 last year but is lower compared to H1 last year. As I explained in the section on overall sales trends, this could be due to the effect of order shortfalls since last year.

Segment income is generally linked to sales in terms of seasonal fluctuations, although the profit margin tends to decline due to increased personnel costs and other factors.

As for management services business, represented in green, the acquisition of Twinkle has had a significant impact, and sales have been increasing since H2 FY2023.

On the other hand, segment income for the interim period of this fiscal year showed a considerable decrease.

In terms of the factors behind that, there has been a profit decrease due to some special factors in the HR and payroll related outsourcing business. I would like to explain this in more detail when I discuss the performance by segment.

Consulting and System Development Business

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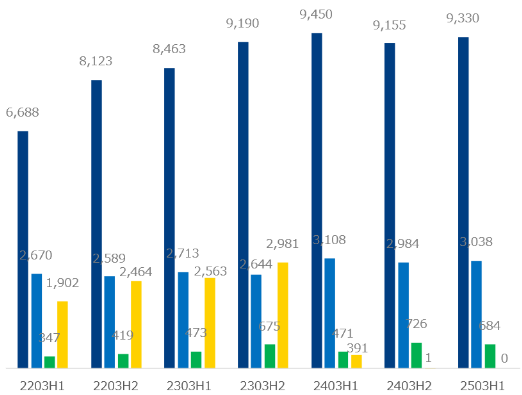
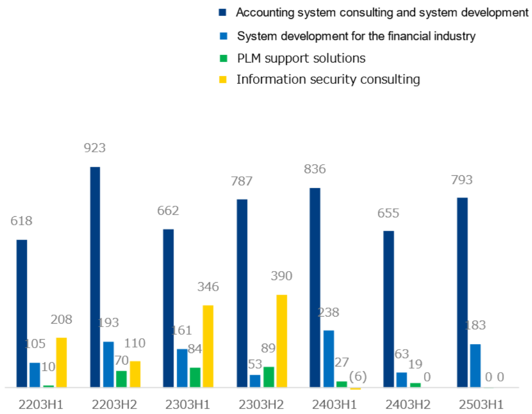
Changes by sub-segment

Segment net sales (unit: million yen)

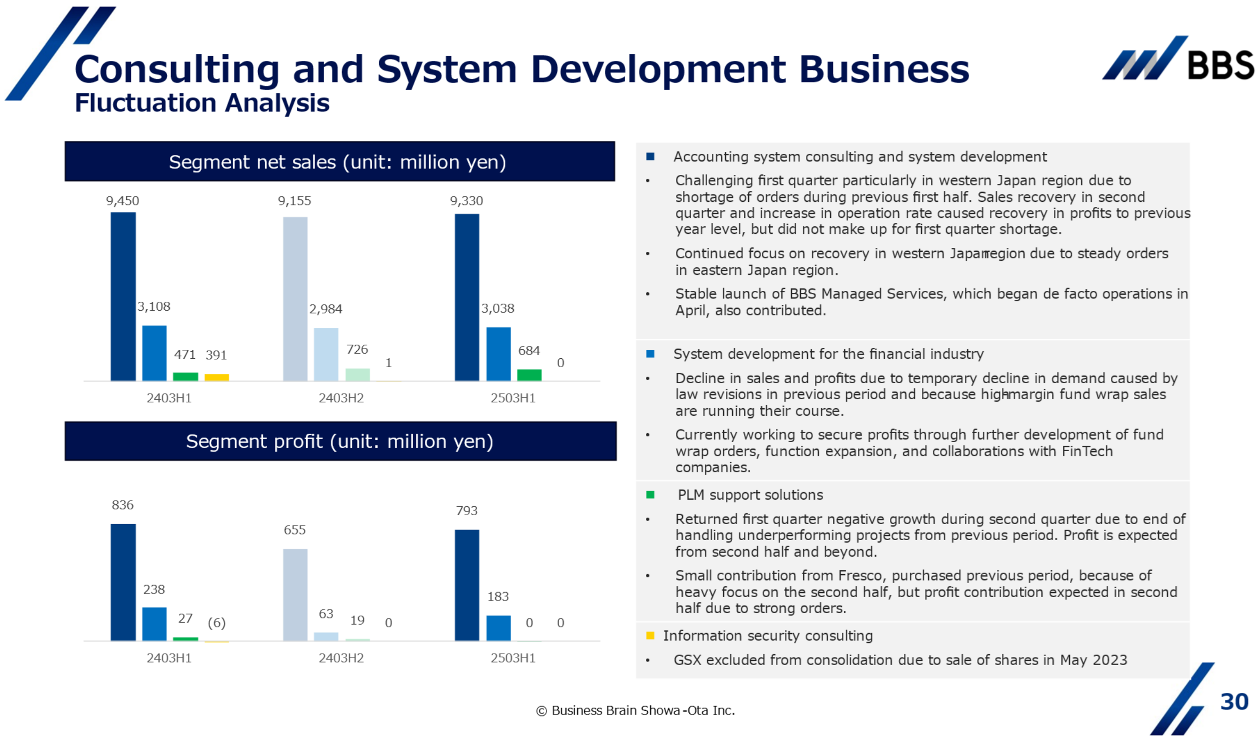


Segment profit (unit: million yen)



This is the situation by sub-segment of the consulting and system development business.

As you can see, the accounting system and system development business represent a major proportion, and most of what we have been telling you such as the situation in the east Japan region, actually falls under the accounting system consulting and system development business shown here.



This slide provides a brief summary of each business, so let me discuss each of them here.

As for accounting system consulting and system development business, there are some overlaps with my previous remarks, so I will skip the explanation. Let me first review the system development business for financial industry.

This business was very strong until H1 of last year due to the so-called special demand such as support for the NISA program. Most of the efforts were generally completed in H1, and the situation has remained sluggish since H2 of last year.

In the interim period under review, there has been no change in the environment, but we have managed to increase profit to this level by uncovering demand for fund-wrap projects and accumulating a variety of small projects one by one.

Profit for the interim period under review was about JPY50 million less than the same period of previous year, but we internally see this as a significant improvement compared to the original budget, with favorable numbers. However, the environment continues to be difficult, and we are not sure if we will be able to successfully accumulate such figures in H2.

Moving on to PLM support solution, this business had been struggling considerably until Q1 due to the continuation of recovery efforts from the troubled projects last year. However, we finally completed the measures to resolve them in Q1, and our capacity structure is returning to normal from Q2.

The performance of Fresco, which was acquired in the previous fiscal year, is rather driven in the latter half of the fiscal year. Therefore, they made almost no contribution to our profit in H1. Since the situation at Fresco is not that bad, we consider it a sufficient factor to boost profit in H2.

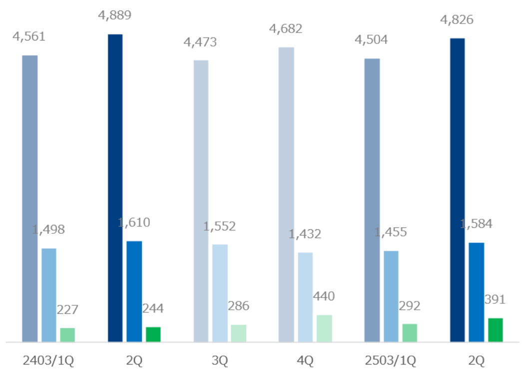
Adding these factors all together, we believe that we can sufficiently recover the profit to the level seen in past years for H2, on a half-year basis.

Consulting and System Development Business

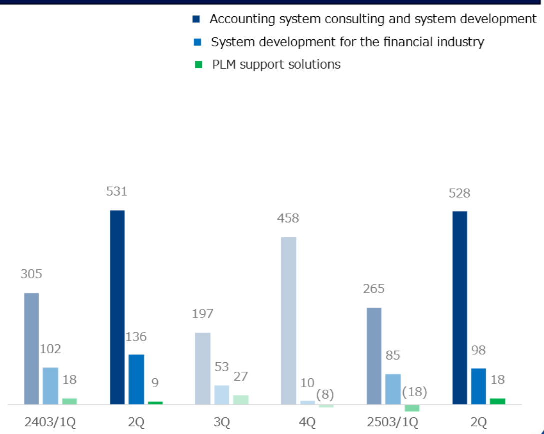
Quarterly Change

Our core accounting system consulting and system development have recovered to the same level as the previous fiscal year. The PLM support solution has turned profitable

Segment net sales (unit: million yen)



Segment profit (unit: million yen)



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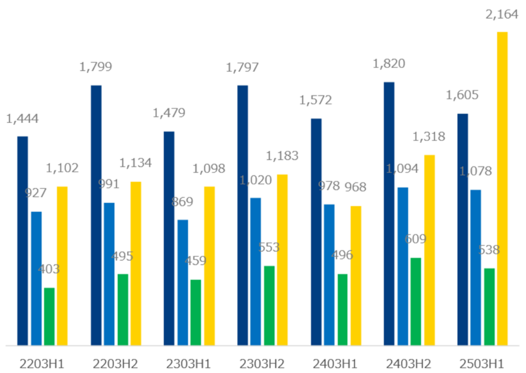
31

This is a quarterly trend. You can see a recovery in the PLM support solutions.

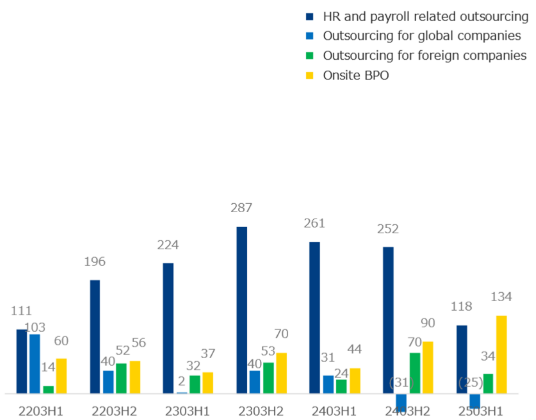
Management Services (BPO) Business

Changes by sub-segment

Segment net sales (unit: million yen)



Segment profit (unit: million yen)



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32

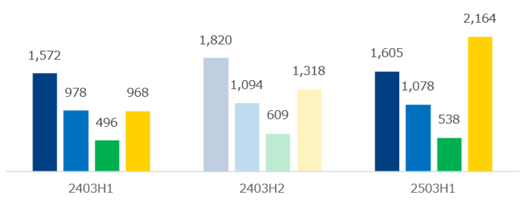
This is about management services business.

Both sales and profit increased for onsite BPO business as a result of the acquisition of Twinkle, but profit decreased by half for HR and payroll related outsourcing business due to a special factor. Outsourcing business for global companies continued to struggle over the past couple of quarters.

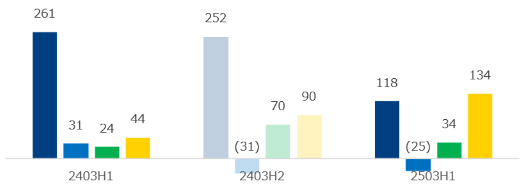
Management Services (BPO) Business
Fluctuation Analysis

BBS

Segment net sales (unit: million yen)



Segment profit (unit: million yen)



- HR and payroll related outsourcing
  - Sales and profits exceeded previous year due to new projects and price increases.
  - With regard to factors that reduced profits, the impact of the approx. 100 million yen cost increase, due to the review of internal cost burden for organizational restructuring, was large, while the increased revenue was cancelled out by the cost increase due to the decline in the operating rate versus increased personnel costs and staffing.
  - Cost rises will be reflected in future contract revisions as much of outsourcing is according to annual contracts.
- Outsourcing for global companies
  - Decline in profitability due to ongoing research on automated accounting for major companies and increased investment costs for establishing the Sapporo BPO Center, in addition to failure to achieve sales for the financial settlement BPO and the growing deficit from increased personnel costs.
  - Currently moving forward with policy to gradually expand from small to larger orders for major companies, causing increase in sales.
- Outsourcing for foreign companies
  - No significant environmental changes. Steady progress is being made.
- Onsite BPO
  - Increase due to acquisition of Twinkle (sales: approx. 1.25 billion yen, profit: 110 million yen)
  - Decrease due to deconsolidation of MICS in May 2023 (sales: 95 million yen, profit: insignificant)

33

This is about the HR and payroll related outsourcing business.

The business had been conducted primarily by the parent company Business Brain Showa-Ota, BBS, and its subsidiary BBS Outsourcing Service Inc. In April of this year, this subsidiary was absorbed and merged into BBS, the parent company, and started operations as an integrated entity this spring.

As described in the comments, sales revenue slightly exceeded that of the same period last year due to new projects and price hikes, but profit was down significantly.

The reason for the profit decrease is not due to the deterioration of the business environment, but due to an increase of nearly JPY100 million in internal expenses associated with the merger, which is a fairly significant factor. The parent company's administrative expenses are allocated to each business based on a certain standard, but the amount of this allocation has increased after BBS Outsourcing Service Inc., became a division of the parent company compared to when it was a subsidiary.

Meanwhile, there were of course administration costs and other expenses that had been borne by that entity when it was a subsidiary, which would normally be offset after the merger. However, in H1 of this fiscal year, we were still in the process of organizing such indirect costs since we didn’t have enough time to prepare because the merger just took place. Therefore, the effect of indirect cost reductions has not yet fully realized.

In addition, in terms of the allocation ratio of administrative expenses between the parent and subsidiary, the amount borne by BBS Outsourcing Service Inc. was relatively lower when it was a subsidiary in the first place. Therefore, the cost borne by it increased after it became part of a parent. This is not an actual increase in expenses, but rather a transfer of them among our group, which means that the amount of expenses borne by other businesses is decreasing in proportion to that.

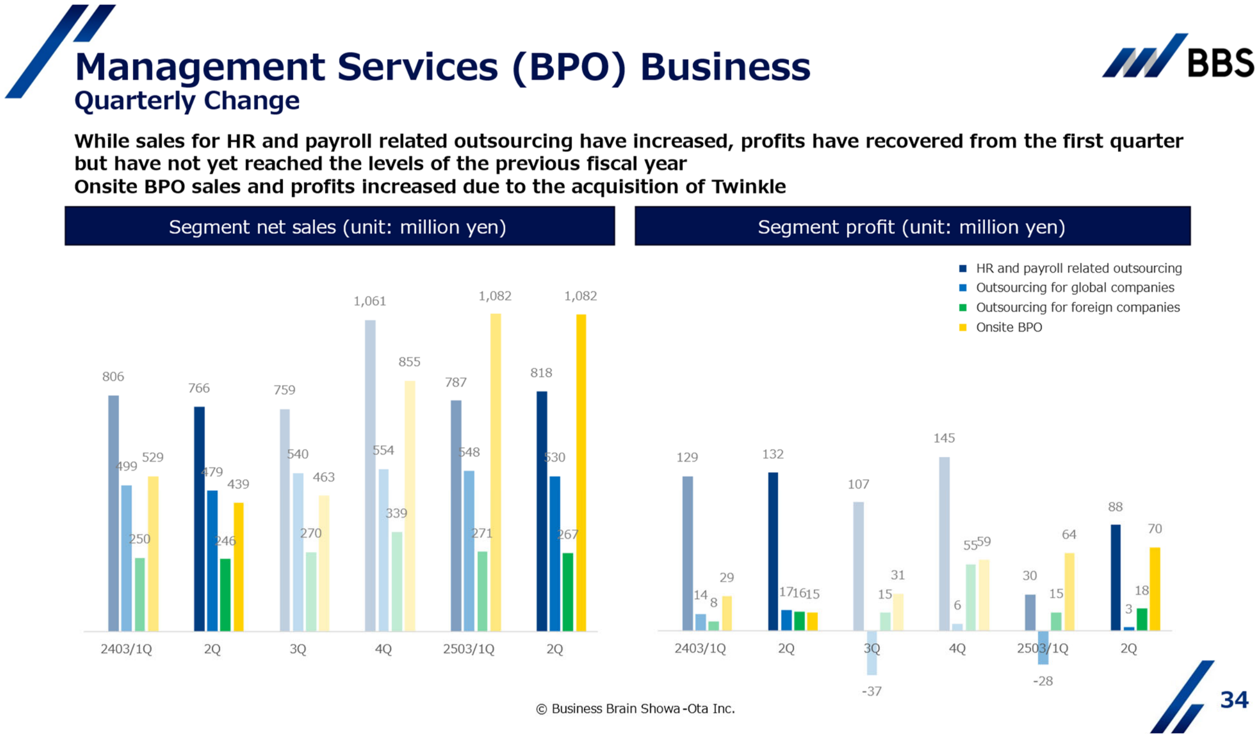
As for other factors contributing to the decrease in profit, there is an increase in personnel costs and wages. As mentioned in the third bullet comment, we expect a slight delay in recovery due to negotiations for price hikes taking place at the time of contract renewal.

In the outsourcing business for global companies, sales of BPO for large companies increased. However, this business was in the red due to sales shortfalls in financial payment BPO and higher personnel costs, as well as an increase in R&D expenses and investment cost for the opening of the Sapporo BPO Center.

Since the Sapporo BPO Center opened in July, we have been receiving new orders and transferring some of the operations performed at the Hibiya Head Office, and as a result, its utilization has been increasing. As a result, although it was in the red in Q1, it turned profitable in Q2.

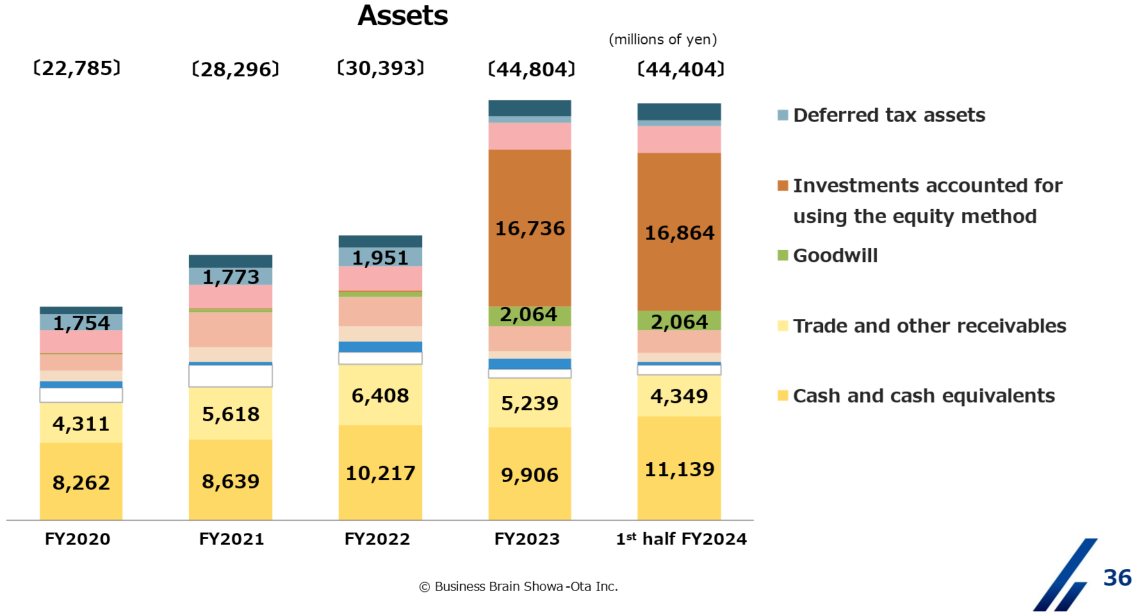
We believe that the outsourcing business for foreign companies is performing well. Since this business is highly seasonal and most of the profits are recorded in Q4, profits in H1 is not that large, but they are steadily increasing compared to the previous year.

In the onsite BPO business, the acquisition of Twinkle has led to a significant increase in both sales revenue and profit, by JPY1.25 billion and JPY110 million respectively.



This is a quarterly trend. If you look at the profit for global companies in particular, you can see that it turned positive in Q2.

[Financial Highlights] Consolidated B/S [Assets] (IFRS)



Next, I would like to explain the status of B/S.

Although total assets decreased by JPY400 million from the end of the previous fiscal year, cash increased by JPY1.2 billion due to the posting of profit and the collection of accounts receivable.

Investments accounted for by an equity method, mainly GSX shares, totaled JPY16.8 billion, an increase of JPY130 million from the end of the previous fiscal year. This increase was due to the inclusion of GSX's earnings for H1, among other factors.

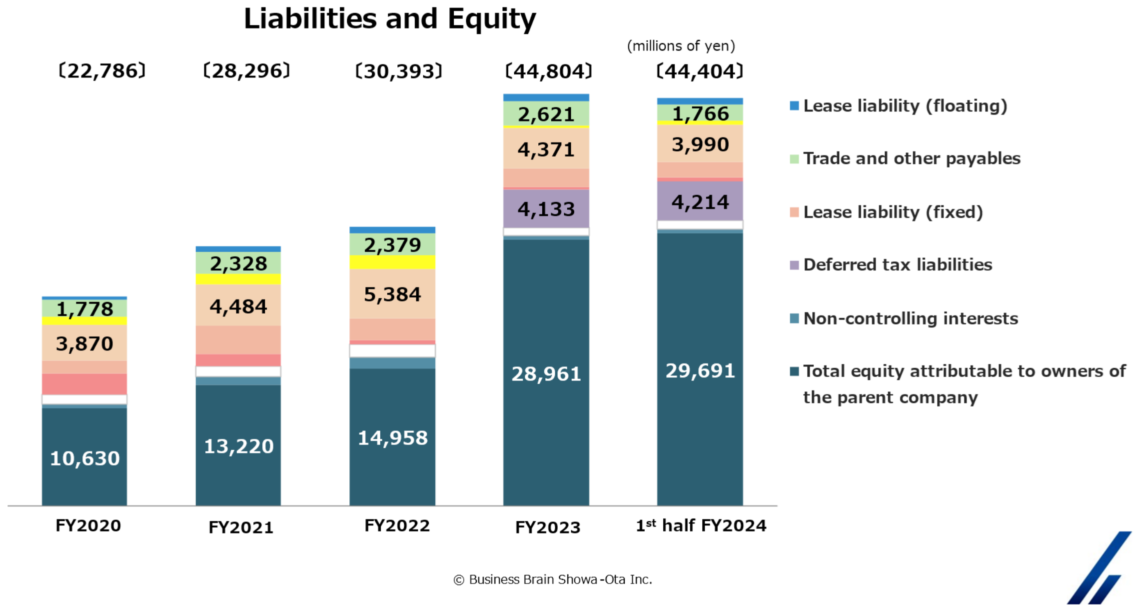
We often get questions about this; As GSX shares are accounted for by an equity method, we applied mark-to-market valuation once when it became an affiliate in May of last year. Since then, we haven't done any revaluation based on the market price. Therefore, the amount of increase or decrease is the amount of GSX's profit for the period.

Regarding the goodwill of Fresco and Twinkle, which we acquired last year, they were accounted for on a provisional basis at the end of the previous fiscal year. During the interim period under review, we have completed the calculation of purchase price allocation, the so-called PPA calculation, and finalized the amount of goodwill.

As a result, approximately JPY500 million was transferred to intangible assets from the amount that had been accounted for as goodwill at the end of last year. The part of this slide for last year, which is the fiscal year ended March 31, 2024, has already been adjusted for the impact of that transfer.

We submitted our semi-annual securities report on November 14, and detailed data on goodwill determination is included in the notes on business combinations in there. Please refer to that.

[Financial Highlights] Consolidated B/S [Liabilities and Equity] (IFRS)



In terms of liabilities and equity, payment of lease obligations, which are accrued rent for the head office building, has been progressed, and payment of trade payables, such as accounts payable, has been progressed, resulting in a decrease in liabilities for each item.

Regarding deferred tax liabilities, I mentioned earlier about the transfer of goodwill to intangible assets, and we have actually recorded a deferred tax liability along with this transfer, which is about JPY170 million. This has led to a slight increase.

[Earnings Forecast] Consolidated Operating Results

Orders are steady and the full-year forecast remains unchanged.

(millions of yen)

	Year ending March 31, 2025 1st half results	Year ending March 31, 2025 Full-year outlook	Progress of full-year outlook	Year ended March 31, 2024 Full-year results	Year-on-year comparison
Orders received	18,867	39,500	47.8%	34,691	13.9%
Revenue	18,064	39,070	46.2%	34,218	14.2%
Business profit	1,175	2,400	49.0%	2,543	-5.6%
Business profit margin	6.5%	6.1%	–	7.4%	–
Operating profit	1,176	2,400	49.0%	20,697	-88.4%
Profit before tax	1,390	2,800	49.6%	20,582	-86.4%
Profit	1,003	2,370	42.3%	14,167	-83.3%
Profit attributable to owners of parent	992	2,340	42.4%	14,146	-83.5%
Ratio of profit attributable to owners of parent	5.5%	6.0%	–	41.3%	–
Dividend per share	37 yen	78 yen	–	75 yen	–

39

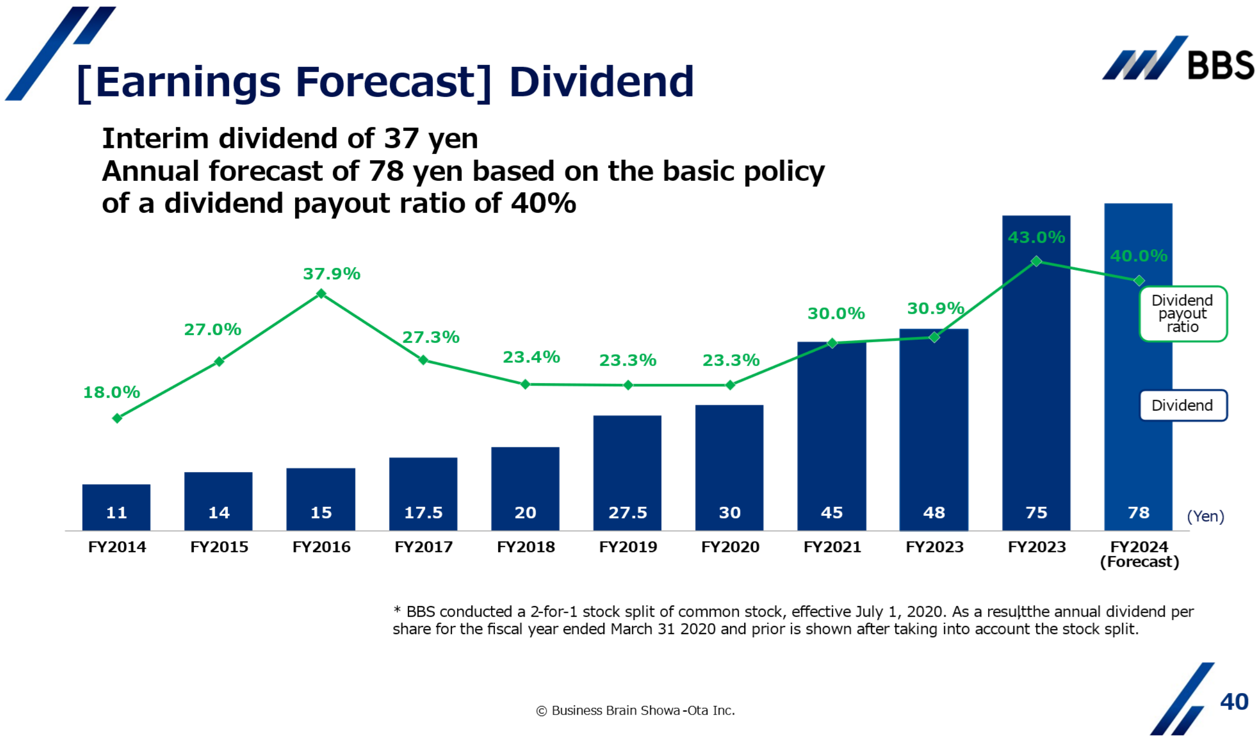
I would now like to discuss our earnings forecast.

As of Q2, we have left the full year forecast unchanged.

As we have mentioned several times before, we are now in a situation where sales revenue is generally in line with our revised forecast that we announced in August. For business profit, we are above that by around JPY200 million. One reason for this upward swing is that the business environment has recovered more quickly than expected. Another reason is that we have been revising our salary structure and various internal systems, and the impact of the accounting treatment is now very difficult to predict. This upswing is partly due to the impact of such a misreading, or deviation from our expectation.

We would like to disclose our full-year earnings forecast when we become more certain about the accuracy of it after a thorough internal review and analysis of the inadequate areas. Therefore, we refrained from making any new announcements as of Q2.

We intend to disclose the updated information as soon as possible.



Finally, let me discuss shareholder returns. In principle, the Company aims for a consolidated dividend payout ratio of 40%, excluding one-time profit/loss items.

Currently, based on the dividend principle, we plan to pay an interim dividend of JPY37, an increase of JPY1 from the previous fiscal year, for a total annual dividend of JPY78, including a year-end dividend of JPY41. In accordance with this dividend policy, we would like to pay a year-end dividend based on the consolidated dividend payout ratio of 40% in principle and will review the amount once again based on the final results of the fiscal year.

This concludes my explanation of the overview of the financial results and earnings forecast. Sorry if I went too quickly. Thank you for your attention.

Moderator: Thank you very much for your explanation.

Question & Answer

Moderator [M]: We will now move on to the question-and-answer session. If you have any questions, please raise your hand and the staff will bring the microphone.

This financial results briefing will be transcribed and published in full, including the question-and-answer session. Therefore, if you wish to remain anonymous, please do not give your name when you ask your question.

Does anyone have any questions?

Kamada [Q]: Thank you. My name is Kamada of Tachibana Securities. I would like to ask about one point on page 27.

I think that the increase in personnel costs is quite severe, with the downward pressure of JPY500 million currently. I also think that you hire more people to reduce the outsourcing costs. As for the sales increase, I suppose there might be some effects from price revisions. I wonder what the breakdown is, for those factors. You also mentioned that you spend a lot of money on recruitment, but how much do you actually spend?

Uehara: This is Uehara. Thank you for your question.

First, regarding the increase in personnel costs, the largest factor of increase is due to the base salary increase at the beginning of the fiscal year, and we believe this has the biggest impact.

Regarding the profit increase due to the pricing effect, which was mentioned before, it is rather reflected in the factor before that, which says sales increase. It consists of a mixture of various items, though.

The increase in recruiting expenses is reflected in a separate item, with the YoY changes in amount, which is JPY37 million overall increase.

Moderator [M]: Is that okay? Thank you.

Takeshita [Q]: Thank you for the detailed explanation. My name is Takeshita from NEC Capital Solutions. This is my first time attending your briefing. Thank you for the opportunity.

I would like to focus on one point in my question, which is about M&A investments shown on page eight. I understand that you are planning to invest a total of JPY13 billion in M&A over the next three years. I would like to know what direction you are envisioning, what type of industry sector you are considering, and what your policies are. I would appreciate some information to the extent you can disclose at this point.

Uehara [A]: I, Uehara, would like to answer this as well.

In principle, we consider M&A target to be a business that falls within the framework of the BBS Group's operations and within the scope of what we call BBS cycle, among others. We are in the process of aggressively expanding our business from peripheral operations centered on management accounting to the ones for front-office operations.

We are still not competitive in some of these areas, so we are looking for companies that have businesses which can complement these areas. Or, as I mentioned earlier, we have a shortage of SEs and engineers, which is an obstacle to our growth. We are considering M&A to supplement these areas as well.

Especially, in the area of AI and other new technologies, the speed of advancement is very rapid, and M&A cost is quite high despite that. So, we are thinking about capital tie-ups or minority investment instead of M&A, if we find a good company which has a great affinity with our business. We are thinking of using the JPY13 billion fund for M&A investment to supplement our peripheral businesses, such as the one I mentioned earlier.

Takeshita [M]: Thank you.

Moderator [M]: Thank you.

Now that we have covered all the questions, we would like to conclude the financial results presentation of Business Brain Showa-Ota Inc.

Thank you very much, Mr. Komiya, Mr. Uehara, and Mr. Okada, for joining us today. And for those participated today, thank you for taking time out of your busy schedule to come to the venue. This concludes the briefing. Thank you.

[END]

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Document Notes

1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
2. *This document has been translated by SCRIPTS Asia.*

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