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baudroie inc.

Financial Results Briefing for the Second Quarter of Fiscal Year Ending February 2025

October 16, 2024

[Speaker]

President and CEO, Shigehiro Tominaga

MC : Thank you for your support. We will now hold the second quarter financial results briefing for the period ending February 2025. We sincerely appreciate your participation in this briefing despite your busy schedule.

Now, I would like to invite our President and CEO, Shigehiro Tominaga, to report on the financial results.

Company Overview

Company name	baudroie inc.	Line of business	IT infrastructure business
Directors	President and Chief Executive Officer Shigehiro Tominaga Representative Director Kazuya Fujii Director Yoshiaki Hodoshima Director (Audit and Supervisory Committee Member) Toshio Okamoto Kiyoko Yagami Anna Seo	Major clients	SoftBank Corp. NTT Communications Corporation Nippon Telegraph and Telephone East Corporation KDDI CORPORATION Mitsubishi Research Institute, Inc. Nomura Research Institute, Ltd. SQUARE ENIX CO., LTD.
Established	April 2007	Subsidiaries	ZOSTEC Inc. ALJOY Inc. FunClock Inc. actias Inc.
Fiscal year-end	February	Head office	Azabudai Hills Mori JP Tower 17F, 1-3-1 Azabudai, Minato-ku, Tokyo
No. of employees	1031 (including full-time and contract employees) *As of August 2024	Second office	BPR Place Kamiyacho 5F, 1-11-9 Azabudai, Minato-ku, Tokyo

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Tominaga : Thank you all for being here today. This time, we have the highest number of applications for our financial results briefing, with 77 participants joining us. Now, I would like to report on the financial results for the second quarter of the fiscal year ending February 2025.

First, let me explain the company overview. Our company was founded in 2007, the same year the iPhone first appeared. With the birth of the iPhone, mobile phones transformed into devices that could be carried around, comparable to personal computers. As communication speeds increased significantly, it was anticipated that various services centered around that device would emerge in the IT field.

To support and develop those services, we determined that a sound and robust IT infrastructure operating behind the scenes was essential, leading us to establish a specialized company. Therefore, while we are a venture, we have not created services that astonish the world. Instead, we focused on a field that was quite unremarkable at the time.

At that time, various ventures were entering the market, such as social networking services, but our business image is not about striking gold during a gold rush; rather, it is akin to selling items like pickaxe or jeans.

Our company name means " Anglerfish" in French, referring to the deep-sea anglerfish. To briefly explain why we chose " Anglerfish"

In academic concepts, the entire IT system is said to be divided into seven levels. There are various interpretations, with some saying it can be divided into four layers or seven layers. The top layer is called the application layer, while the bottom layer is referred to as the physical layer.

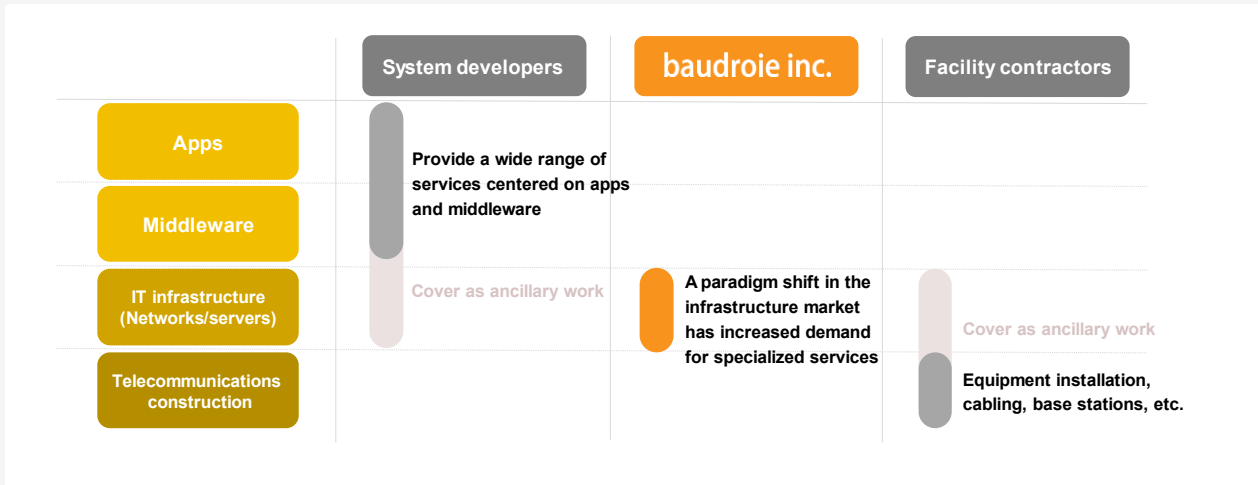
The physical layer is somewhat outside of IT, relating to the wiring aspect, which is a specialty of a telecommunication construction companies.

We are in the business of excelling at the layer above that physical layer, beyond the wiring.

Academically speaking, our territory lies in the second or third layer, meaning that from the perspective of the entire system, we are in the deep sea. The name " Anglerfish" was chosen because it lives in the deep sea and glows.

What Differentiates Us from System Developers and Facilities Contractors

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



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

Next, I will explain our positioning within the industry. In the past, IT systems were characterized by a broad and shallow approach. However, due to the diversification of social needs, advanced technology is now required at each layer.

Regarding the breadth of the seven layers, even if we extract that concept, it has not changed. Although this diagram shows four layers, those four layers remain unchanged. What is happening is that while the breadth of these layers has not changed, each layer has become more complex.

Despite this background, not everything has been made more complex, and most of the technology is still conventional, so some systems companies are still doing business across the layers. But, because some of the technologies have become more complex, there have been specialized, specialty-type companies that have emerged in recent years.

For example, some companies specialize in AI and digital transformation (DX), and even more in municipal DX and cloud services. We specialize in IT infrastructure, and I think that is what makes us unique.

The bottom two in the above diagram are called 'infrastructure' in the IT industry, but in our business we do not engage the LAN part, the wiring part, or the construction work that telecommunications construction companies mainly do within the infrastructure.

As shown in the diagram above, the system developers, which was responsible for a broad cross-section of each tier, was responsible for the application as its core business while also handling the IT infrastructure portion incidentally.

Facility construction companies were also involved in telecommunications work as their main business, but were also incidentally responsible for the IT infrastructure connected to it.

In this context, I feel that our unique position has gained prominence against the backdrop of changing times.

Executive Summary

Revenue (Q1-Q2 [cumulative])

5.29 billion yen (up **51.6%** YoY)

Operating profit (Q1-Q2 [cumulative])

1.05 billion yen (up **56.2%** YoY)

- ✓ **Operating profit in the Q2 was a little over 100 million yen higher than the full-year forecast of 2.3 billion yen.**
Although earnings tend to increase in the second half of each year, operating profit is on pace to exceed that of the previous year.
- ✓ **actias Inc. is included in the consolidated financial results from Q2.**
Aim to continue high growth over the medium to long term by providing technical training to actias Inc. personnel and developing specialized talent.

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Next, I will report a summary of the financial results figures.

Our revenue has increased by 51% compared to the same period previous year, and our operating profit has risen by 56%.

To give you a rough idea of these figures, at the second quarter, revenue have exceeded the previously upwardly revised forecast, and operating profit is slightly more than 100 million yen above the forecast. New subsidiaries were consolidated in Q1 and Q2.

Since our IPO, we have conducted M&A in the first and second years, acquiring one company each year with revenues of about 500 million yen.

But, in this first half of the year we acquired a company with revenues of 1 billion yen and another with revenues of 1.7 billion yen.

Naturally, this will lead to an increase in revenue, but it will also result in a decrease in gross profit margin and operating profit margin.

Additionally, after the acquisition, we provide PMI and sales support, and also take over our projects to our subsidiaries.

Although we are using our resources to take over that project, gross profit margin and operating profit margin are expected to improve relatively quickly in the future.

Furthermore, earnings are expected to increase further from the Q2 through the end of the current fiscal year. I'll explain later.

Summary of Consolidated Financial Results

- ✓ actias Inc. is included in the consolidated financial results from Q2.
- ✓ Despite the impact of consolidated subsidiaries, both revenue and operating profit grew at a high rate.

*Adjustment from Japanese GAAP to IFRS figures.

(Thousands of yen)	Q1 - Q2 FY2024 Results (Cumulative) *	Q1 - Q2 FY2025 Results (Cumulative)	YoY (First half-year)	FY2025 full-year Forecast (Update)	YoY (Full year)
Revenue	3,489,781	5,291,928	+51.6%	11,400,000	+55.5%
Operating profit	670,984	1,048,062	+56.2%	2,300,000	+45.0%
Profit before tax	665,994	1,057,048	+58.7%	2,302,000	+46.2%
Profit	491,032	762,219	+55.2%	1,644,000	+41.6%

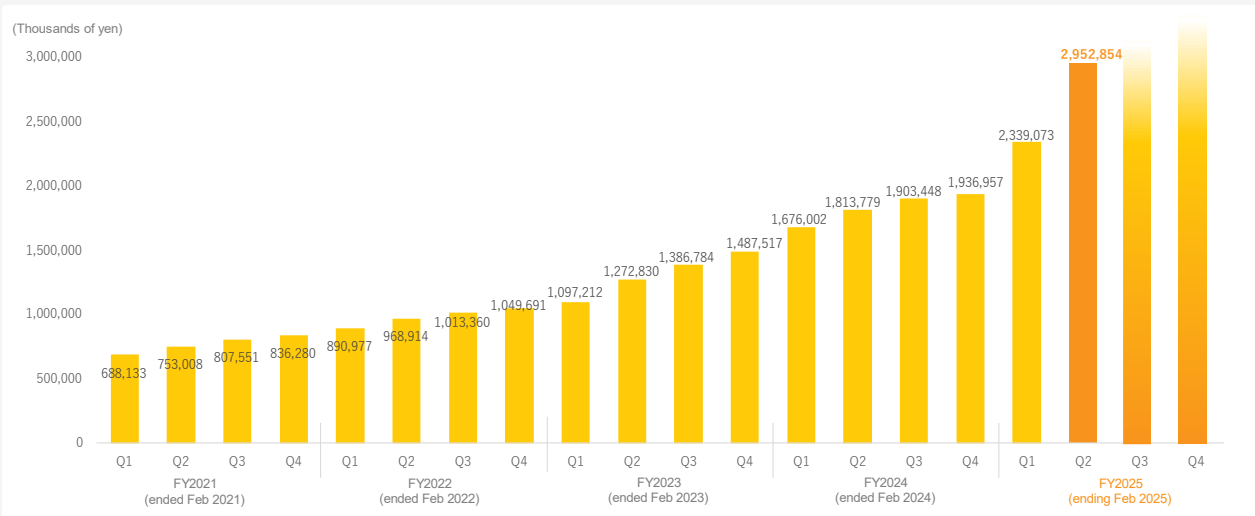
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This slide shows the figures at each stage, comparing them to the previous quarter. The figures from the previous period have also been adjusted to IFRS, so we are comparing them on that basis. You can see that we have grown by about 1.5 times over the year.

Trends in Quarterly Consolidated Revenue

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

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



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This slide shows the quarterly revenue trends.

Our revenue basically do not fall below QoQ, and within the same fiscal year, they tend to increase from Q2 through the end of the fiscal year. There are two main reasons.

The first is that the timing of project acceptance inspection will increase from Q2 to the end of the fiscal year. Many of our projects are recurring sales, in which we make sales every month, but we also have projects in which we make sales at the time of acceptance inspection.

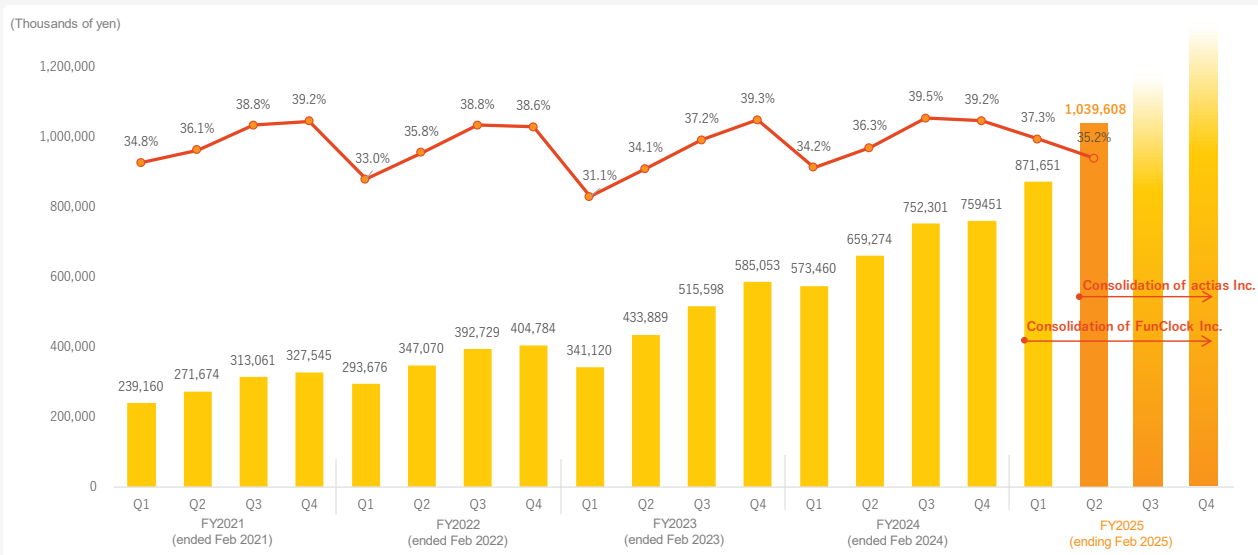
The second is due to the Company's policy of reallocating personnel.

We hire mainly new graduates every year. Therefore, the first year is a training period. Engineers in their first year with the company learn the work of their seniors, and in their second year, they take over the work from their seniors.

Sales increase toward the end of the term as senior resources become available and new projects are assigned toward the end of the term.

Trends in Quarterly Consolidated Gross Profit

✓ Gross profit margin declined in QonQ due to the consolidation of actias Inc. But the margin is expected to improve in the second half of the fiscal year due to PMI.



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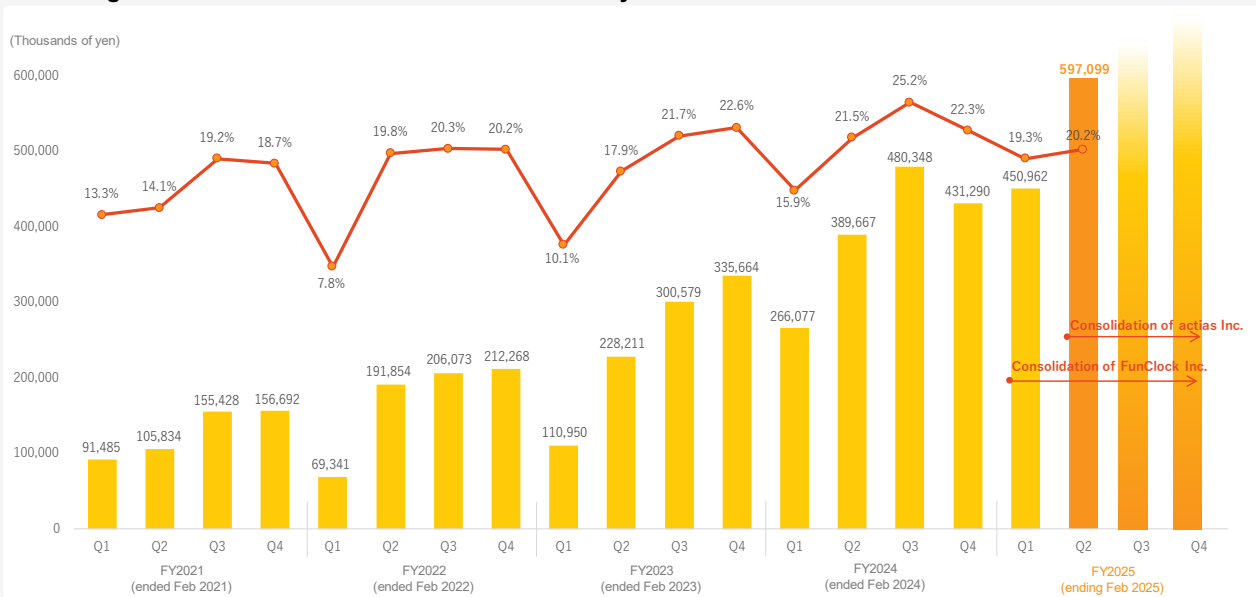
This slide shows the quarterly Gross profit trends.

Gross profit margin is lower than in Q1, but this is due to the consolidation of subsidiaries.

Our non-consolidated gross profit margin is up from Q2 of the previous year, so there is no special event taking place.

Trends in Quarterly Consolidated Operating Profit

✓ Despite the PMI costs incurred by makingactias Inc. a subsidiary, the company continued to grow at a high rate of 56.2% YoY in first half of the fiscal year.



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This slide shows the trend of operating profit.

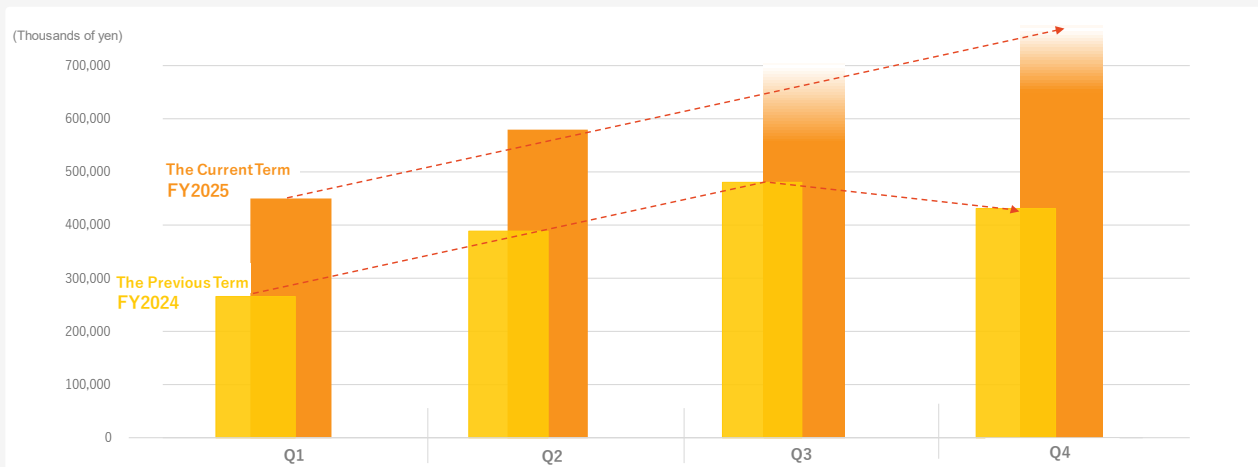
The gross margin has decreased compared to the first quarter, but the operating profit margin has slightly increased.

If the PMI and other initiatives we have implemented this year progress, we expect the margin to naturally increase.

While we are taking over to our subsidiaries work that can be undertaken without us, we are incurring double the cost of personnel. We will take over while maintaining the profit growth rate expected by the market.

Consolidated Operating Profit Quarterly Image

- ✓ Operating income was higher in the Q3 than in the Q4 only in the previous fiscal year, but is expected to be higher in the Q4 than in the Q3 this fiscal year as in past years.
- ✓ Retaining a sufficient growth rate and make upfront investments in the second half of the year if the full-year forecast is likely to be significantly exceeded.



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This is the trend of quarterly operating profit.

As seen on page 13, in the previous fiscal year only, the operating profit in Q4 decreased compared to Q3. In other fiscal years, operating income increased each quarter from Q1 to Q4.

We expect that if we proceed naturally this year, it will increase each quarter. If you look at the profit growth rate from the previous year, I think it would be good to compare it based on this premise.

In the current fiscal year, we will continue to maintain the growth rate demanded by the market, but significantly exceeds it, we may invest part of that excess upfront.

Status of Progress Toward the Full -Year Consolidated Earnings Forecast

- ✓ The updated full-year forecast includes the forecast for actias Inc. Although actias Inc. was only consolidated in the Q2 in the first half of the year, both sales and operating income are progressing well.
- ✓ We aim to exceed revised full-year forecasts.

	Japanese GAAP			IFRS				
	Q1 - Q2 FY2024 Results (Cumulative)	FY2024 Full-year Results	Progress rate	Q1 - Q2 FY2025 Results (Cumulative)	FY2025 Full-year Forecast (Before update)	Progress rate toward before update forecast	FY2025 full-year Forecast (Update)	Progress rate toward update forecast
(Thousands of yen)								
Revenue	3,489,781	7,330,186	47.6%	5,291,928	9,900,000	53.5%	11,400,000	46.4%
Operating profit	655,744	1,567,382	41.8%	1,048,062	2,130,000	49.2%	2,300,000	45.6%
Profit before tax	684,644	1,622,010	42.2%	1,057,048	2,135,000	49.5%	2,302,000	45.9%
Profit	456,955	1,171,690	39.0%	762,219	1,540,000	49.5%	1,644,000	46.4%

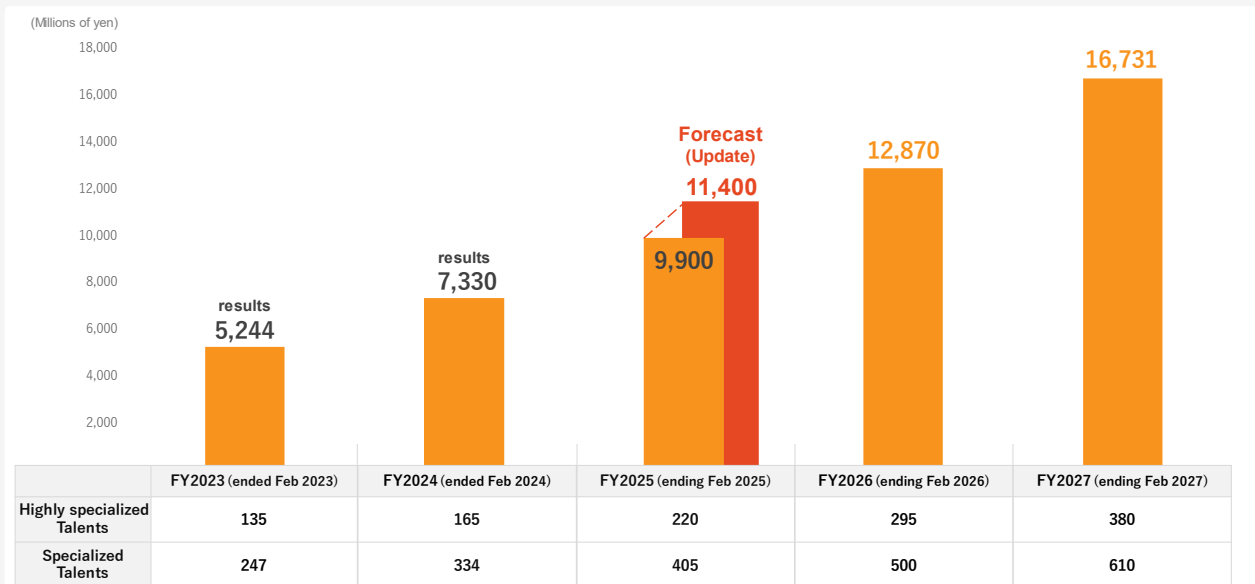
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Next, I will report the progress rate of the performance forecast before and after the revision. Although we have not reached 50% progress in the first half of the year, our performance tends to increase each quarter toward the end of the year. The revised budget includes the company acquired in the second quarter, but considering that only the second quarter is consolidated in the first half, we are likely to be in a safer zone regarding the revised budget for this term.

We will exceed the current full-year forecast and create high growth in the next fiscal year while conducting PMI and taking over projects to subsidiaries.

Medium-Term Business Plan: Revenue

✓ We are already exceeding our medium-term management plan, which was updated in April 2024.



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

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This slide shows the mid-term management plan.

This is a comparison between the updated forecast disclosed in June and the medium-term management plan disclosed in April.

We have not updated the medium-term management plan at this timing, but the revenue for this term are already expected to significantly exceed the forecast. As I mentioned earlier, we are always envisioning a 30% growth in operating profit and its continuity.

One important point of our growth is shown in the lower part of this table.

Taking an average, the specialized talents are engineers in their third to sixth year.

Highly specialized talents are roughly 7th grade and above.

Of course, all employees are driving growth, but among them, they are the members who play a central role in the project from acquisition to completion.

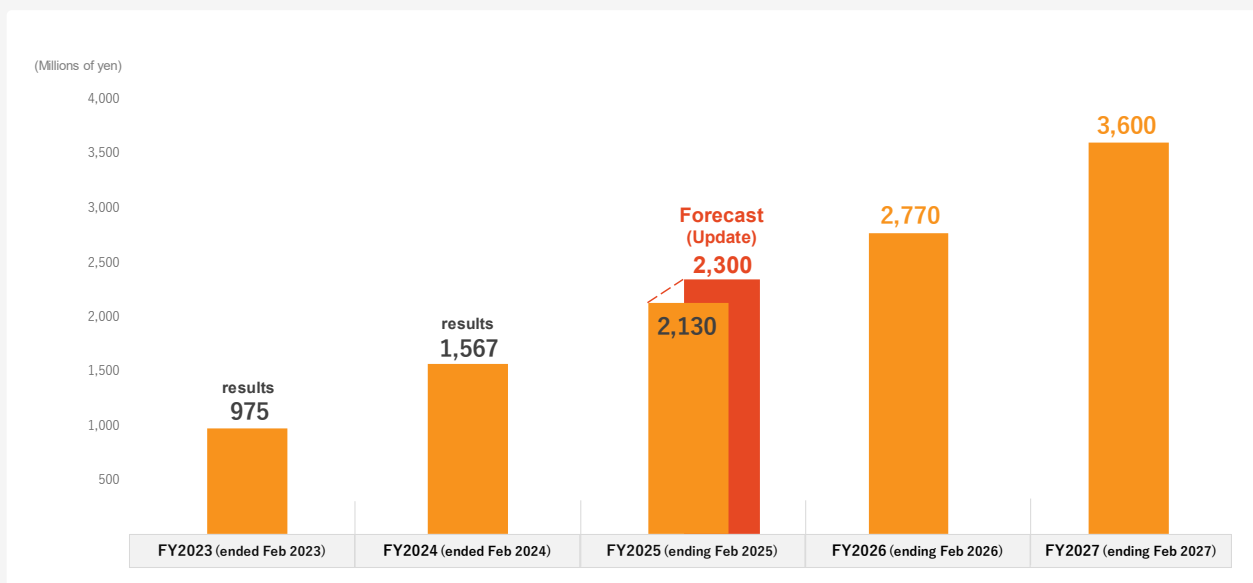
Since we do not hire any experienced staff, we plan our performance years in advance, working backward from the progress of hiring and training.

For example, new graduates who joined the company in April of this year will begin to become specialized talents in the fiscal year ending February 2027 in this mid-term management plan.

For these reasons, we are now focusing on efforts to increase the probability of high growth per around FY2028.

Medium-Term Business Plan: Operating Profit

✓ Continue to pursue M&A to achieve high profit growth in FY2028 and beyond.



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Next, this is the medium-term management plan for operating income.

Although we are not updating the medium-term management plan at this timing, the operating profit for this term is expected to exceed the forecast.

We expect to exceed our full-year forecast of 2.3 billion yen.

Our focus is on high growth of operating profit in every fiscal year and its continuity.

Regardless of what the growth rate is this fiscal year, we are preparing for a target of over 30% next fiscal year.

Sales to Enterprise Clients

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



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

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Next, I will highlight three key points of our business.

One of the things our company emphasizes is the expansion and progress of enterprise customers.

By enterprise companies, we simply mean large companies. Since large companies tend to have larger transaction amounts than small and medium-sized companies, we would like to increase the percentage of sales to enterprise customers.

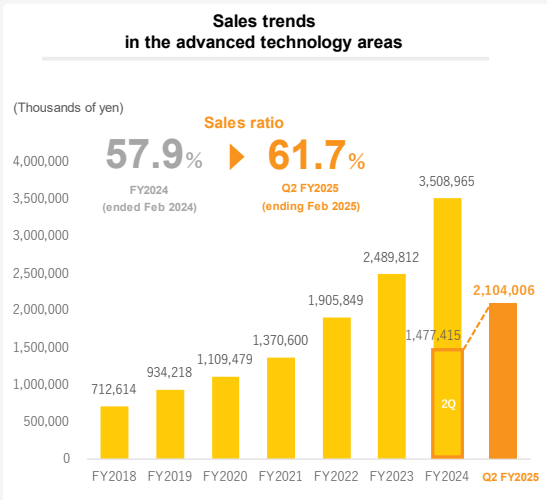
We were not aggressively marketing before our IPO, and we only had five sales people.

So we have expanded our transaction through referrals and word of mouth.

Moving forward, we aim to further enhance the sales ratio of enterprise customers through proactive sales development.

Sales in Advanced Technology Areas

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



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

Advanced technology areas expected to have high growth potential

	Forecasted market size	CAGR of the market	Our sales ratio ※6
Wireless (global market)	US\$ 130.6 billion (2026) *1	15%	17%
Load balancer (global market)	US\$ 8.9 billion (2027) *2	13%	22%
Network virtualization (domestic market)	Approx. ¥50 billion (2026) *3	3%	10%
Cloud (domestic market)	¥4.3 trillion (2026) *4	21%	26%
Security (Domestic market: software, appliances)	¥531.7 billion (2026) *5	4%	18%

*1 Source: "Global Wireless Connectivity Market" by BCC Research (provided by Global Information, Inc. as agent)

*2 Source: "Load Balancer Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast" by IMARC Services (provided by Global Information, Inc. as agent)

*3 Source: Press release by IDC Japan, "Announcement of Domestic Network Virtualization/Automation Market and NFV Market Forecasts" (May 11, 2022)

*4 Source: Press release by IDC Japan, "Announcement of Domestic Public Cloud Service Market Forecast" (September 15, 2022)

*5 Source: Press release by IDC Japan, "Announcement of Latest Domestic Information Security Market Forecasts" (May 26, 2022)

*6 The changes in "our sales ratio" (indicated by arrows) show comparison with FY2024 results and include overlapping sales areas.

The second point is sales in the high difficulty level and fast-growing advanced technology sector of IT infrastructure.

The advanced technologies we define include those listed on the right side.

Since IT infrastructure is made up of a combination of advanced technologies, there is no particular area of growth, but our cloud computing sales ratio is high.

Development of Specialized and Highly Specialized Talent

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

	Specialized talent	Highly specialized talent
FY2021 (ended Feb 2021)	122	97
FY2022 (ended Feb 2022)	174	109
FY2023 (ended Feb 2023)	247	135
FY2024 (ended Feb 2024)	334	165
Q2 FY2025 (ending Feb 2025)	399	213

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

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The third point, changes in the number of specialized and highly specialized talents.

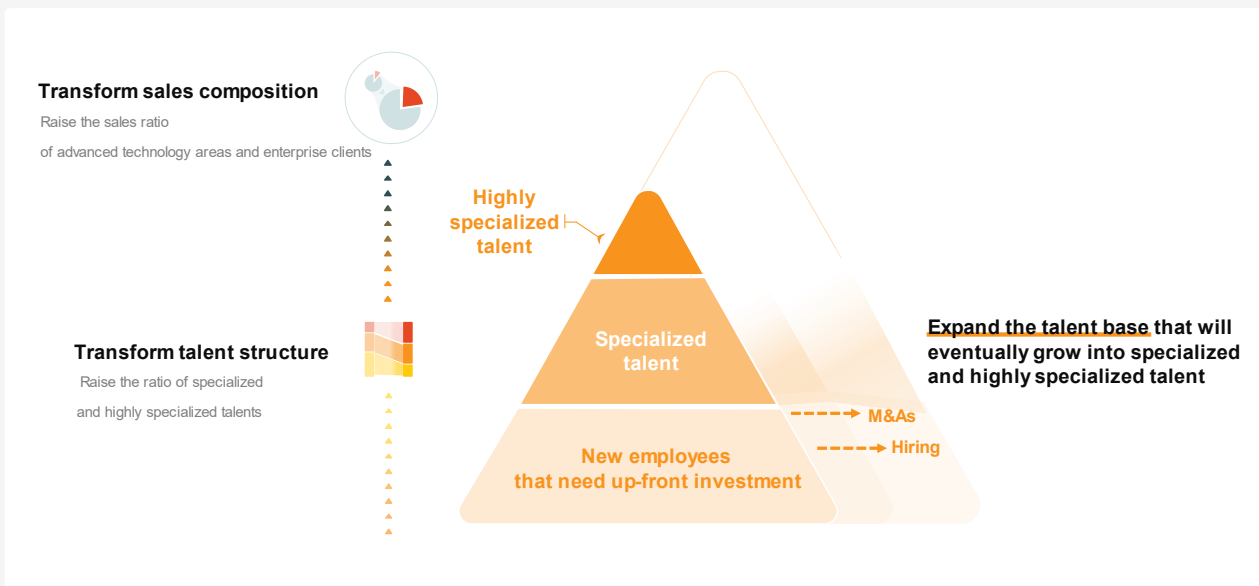
We categorize our employees into three tiers, with the two relevant tiers being specialized personnel with three to six years of experience and highly specialized personnel with seven or more years. Although not listed here, we define first-year to second-year employees as entry-level personnel.

As you can see from the upper section, the number of highly specialized talents used to increase by only about ten per year.

However, we began accelerating our hiring shortly before the IPO, so that we now have about 50 more highly specialized personnel per year, now in their seventh year.

Illustrative Drawing of our Strategy

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



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This slide is a strategy image. We have summarized the three highlights mentioned earlier. The first is transform our talent structure.

Our company has 1,000 employees, but only 600 are specialized talents or above, and only 200 are highly specialized talents. The others are new employees that need up-front investment. This mix changes every year.

The second point mentions the transformation of revenue composition.

As the percentage of sales from enterprise customers and advanced technology areas has increased, our competitive advantage has increased.

As a result, they have been able to get higher sales at the same man-hours as before.

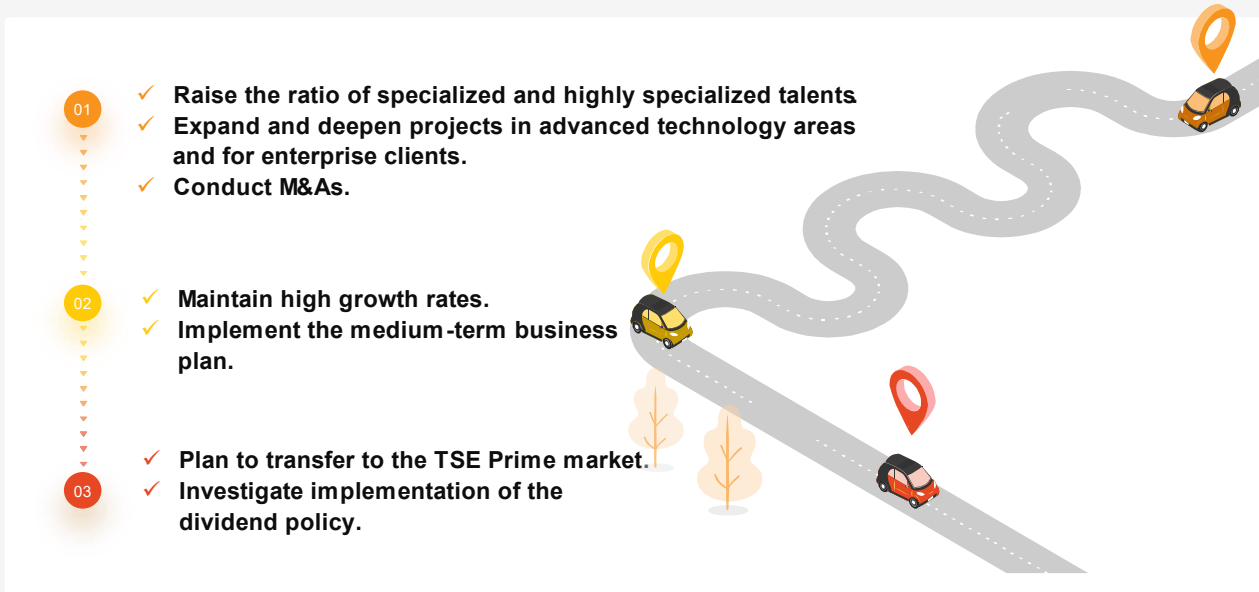
In other words, it is as if the height of the triangle in this figure is increasing.

Currently, the impact of M&A is making gross profit margins more difficult to predict, but the triangle is steadily changing in height.

The third point is that we are currently engaging in hiring and M&A to maintain high growth beyond our mid-term management plan. It means that we are expanding the talents that form the base of this triangle.

Summary of Highlights

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



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This slide is what we have been communicating since shortly after the listing.

The first one from the top is what I just told you all.

Second, we have been able to maintain high growth.

Third, regardless of when we move to the prime market, we have met the ordinary income and net asset requirements for the criteria to move to the prime market.

It will be three years since the IPO next month. We hope to continue growing together with all of you, so thank you for your support.

Q&A Session

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

[Q] : You said that operating income would exceed the full-year plan by a little more than 100 million yen, but is it safe to assume that the pace for the full year will exceed the plan by about 200 million yen?

[A] : That is approximately correct.

[Q] : You said that you would make additional investments if you judged that earnings were likely to improve significantly higher.

What level of profit and profit growth rate for the full-year results would the company consider to be a passing grade?

[A] : The first half of the year exceeded the forecast by 100 million yen, and if the second half of the year also exceeds the forecast by 100 million yen, operating income will be 2.5 billion yen.

Of course, since it is the future, we cannot say anything definitive, but we think that a large exceedance means that operating profit will be over 2.5 billion yen.

We do not know if it will be 2.5 billion yen, but please use the following guideline: if it is less than 2.5 billion yen, no additional investment will be made; if it is more than 2.5 billion yen, investment will be made.

[Q] : Hiring progress and turnover rate changes.

[A] : Hiring progress is as good as ever.

The hiring of new graduates for 2025 was completed about six months ago and we are in the process of hiring new graduates for 2026. Our turnover rate is no different than before.

[Q] : As usual, the increase in operating profit will increase toward the end of the term, but is it correct that the drop in profit in Q4 last year compared to Q3 was a temporary special factor?

[A] : It is correct that it was a temporary special factor.

There are currently no temporary special factors expected in Q4 of this fiscal year. But I would like you to think that the 2.5 billion yen I mentioned earlier will be one of the key factors.

[Q] : What additional investments will be made when it is determined that operating profits are likely to be exceeded?

[A] : Of course we will hire additionally, but the most important thing is to take over the project to our subsidiaries.

Our company specializes in advanced technology fields, but we actually have projects that can be done even if it's not our company.

Such projects are not numerous, but we will take them over to our subsidiaries.

Since it takes man-hours of our personnel at the time of that handover, we plan to invest in such things, such as a more proactive approach to that handover.

Once the handover is complete, the man-hours of our personnel will be freed up to go get new sales. This will further increase the probability of high growth in the next fiscal year.

[Q] : If it is likely to exceed the plan for the FY2025, will you raise the figures in the medium-term management plan for the FY2026 and beyond?

Also, to what extent do you plan to include the effects of new M&A in the FY2026 and beyond?

[A] : We plan to update the medium-term management plan once a year, so we plan to do so when the full-year results for the current fiscal year are available.

We do not frequently announce revisions to our earnings forecasts.

The previous year's operating profit was up 60% YoY, and the year before that, it was up 43% YoY.

Full-year forecasts were lower than that, but were not updated.

Current year, we disclosed an update to our earnings forecast, as the M&As will add significantly to our

sales.

We will disclose updates if they make sense at the time, but basically we do not disclose updates frequently.

Regarding the update of the mid-term management plan, since we are emphasizing the continuation of high growth rates, the update will be based on the full-year performance figures, no matter what the growth rate is for the current fiscal year.

As the mid-term management plan is scheduled to be updated, I cannot say anything definite yet, but even if we do not make any new M&As in the next fiscal year, we expect to achieve our announced mid-term management plan.

[Q] : Is there a possibility that sudden additional investment would be wasted?

[A] : As you say, rapid investment may not be cost-effective.

We can prepare for hiring about two to three months in advance, so it is not a sudden investment.

Also, a more aggressive handover of the project to the subsidiary, so that the handover occurs more quickly than originally envisioned, would not be a waste of investment.

We would like to make such investments.

[Q] : What factors contributed to the fact that operating profit for the previous year was lower in the Q4 than in the Q3?

[A] : The previous year's performance was quite good as of Q3, and it was expected that the profit growth rate would be a little higher if it continued through to the end of the period.

Therefore, additional investments were made in Q4 of the previous year, resulting in lower profits in Q4 than in Q3.

[Q] : What types of companies does your company consider for M&A? How many such companies are there in the world, and are there other companies that would like to M&A such a company?

[A] : Companies that are in the same IT infrastructure business as we are are the target of the acquisition, like actias Inc. and ZOSTEC Inc. that we acquired last time.

But although they are the same in a broad sense, if we categorize baudroie's projects, it has about 60% of its sales in the advanced technology field.

But, when we categorize the subsidiary's projects, there are almost no sales in the advanced technology field.

Many of our subsidiary's projects are in conventional technologies, so the nature of their business is slightly different from ours, which focuses on advanced technology fields.

The number of companies I know of that are in the same IT infrastructure business that are targeted for acquisition is about 100 in Tokyo.

Compared to other systems companies whose business covers a wide range of areas other than IT infrastructure, we specialize in IT infrastructure, so there may not be as much competition on the acquiring side.

We do not have any M&A plans for the next fiscal year or beyond, but we are at the stage where we are starting to get a few ideas.

[Q] : About dividend Policy.

[A] : As stated on page 25, number 3, I can't say anything definitive, but it is safe to assume that this is the timing of the transition to the prime market.

[Q] : There has been a lot of talk about VMware's large price increase, will it affect your business and performance?

[A] : Since we do not service VMware-based systems, this price increase will not result in an increase in our costs.

An increasing number of our projects are related to VMware. Some customers are experiencing increased costs due to price increases all at once, so we are seeing an increase in projects that involve balancing with other manufacturers such as Nutanix to keep costs down. In some cases, everything is being

renewed to another manufacturer.

But this project will not be our special demand. We have several VMware projects in a situation where we have been able to selectively receive orders due to excessive demand for some time now, so the loss of this project will not have a negative impact on our business performance.

In other words, this price increase is positive for us, and we expect this impact to last a bit longer. VMware users are considering switching to other products quite a bit, and the price increase does not mean they can switch all at once. Many customers are considering implementing this when their licenses expire, so this trend is expected to continue for about a year.

[Q] : The consolidation of actias Inc. reduced the gross margin by about 2%, but how much will PMI improve the gross margin in the second half of the year?

[A] : Last year's Q3 gross margin was 39.5%, so I have a sense of about 2-3%. It is not that high.

[Q] : What is your company's competitive advantage and what is the status of the competition?

[A] : We haven't done competition for a long time. We have 15 salespeople now, but if we were running a competition, we would need more salespeople. And if there were more competitors, there would be more sales people.

About our competitive advantage, first, IT systems used to be a simple set of technologies, but some conventional technologies still remain. If we tried to form a team for a project of this simple technology, there are many companies that can do it, and if we ask 10 companies, 10 companies can do it. But the IT industry is short of staff, so they gather engineers from various companies to form a team, not just one company.

For example, in the financial industry, if you want to create a team of experts, you need to gather people who specialize in some field, so you need to assemble people from various companies.

The IT industry in Japan is not the same. Regardless of the difficulty of the project, it is common for teams to be formed by gathering engineers from various companies, simply because of the shortage of labor.

The same situation may be true of construction industry in Japan.

For projects in the advanced technology fields in which we specialize, it is quite difficult to assemble engineers. This is not due to a shortage of labor, but rather the rarity of skilled engineers.

So, when trying to gather rare engineers, we reach out to another 10 to 30 companies and finally find one person. Then, we reach out to another 10 to 30 companies to find another, repeating this process to build the team.

The difficulty level of team composition is different from that of a conventional technology project.

When other companies try to form teams for projects in advanced technology fields, they form inefficient teams. In our case, we can assemble a team with only our own engineers, without having to gather people.

While other companies could build a team, the point at which it would be less efficient is our competitive advantage.

[Q] : Will aggressive sales activities cause overcapacity or overburden the company?

[A] : Yes, since we do not use outsourcing partners and only use engineers from our group companies to complete projects, the supply of engineers is our main capacity.

Aggressive sales will increase the number of projects we can choose from. For example, without aggressive sales, we would have to choose one out of 30, but with aggressive sales, we can choose one out of 50. We can select more profitable projects.

Our capacity depends on the number of highly specialized talents and professional talents.

Therefore, in order to continue our high growth rate, we have been recruiting and training a number of human resources backwards for several years.

[Q] : Is the telecommunications carrier's investment relevant to your company?

[A] : I have an image of base station investment having settled down quite some time ago.

Base stations are in the same network category, but they are different from our network field. We are not in the business of networks related to radio waves, but rather the IT infrastructure part of 5G services. Therefore, we are in charge of creating a fast and efficient network to create new services after the base station investment is complete, so please consider that our company will only be affected from now on.

[Q] : Will the sales team approach customers independently or in cooperation with other companies?

[A] : Basically, we do not outsource because we do not have our own outsourcing partner, but now that we have more subsidiaries, we are taking over to them projects that can be done without us. In addition, since skilled engineers are generally responsible for everything from construction to testing, we are considering requesting this testing phase to be performed by a subsidiary. The subsidiary cannot design test items, but they can execute tests quite accurately. Such business collaboration is being implemented within the group.

[Q] : Engineer utilization rate forecast for the second half of the year.

[A] : All of our engineers are assigned to some project. In some cases, some have multiple projects. It also depends on what you consider the utilization rate to be defined as.

We have hundreds of projects, and first-year engineers are assigned to one of those projects, but it is not until the second year that they become productive.

In the second year, they begin to take over work from senior engineers.

Therefore, it could be said that the utilization rate is 100%, or if it is determined that first-year students are not operating, then the utilization rate would be the number of other people, excluding the number of first-year engineers.

This utilization rate increases gradually toward the end of the term as engineers take over the work of senior engineers in their second year and senior engineers are assigned to new projects.

[Q] : What is your plan for hiring personnel, if you can, will you hire more than planned, or do you plan to raise the quality of your personnel by raising your hiring standards?

[A] : If anything, we would like to hire more people.

The amount of people we are looking for relative to our growth rate is also high, and we need to make sure that there is no mismatch after they join our company.

We feel that our current hiring standards are a good match for our company, and we would like to hire more people in the future rather than raising our hiring standards.

Since we used to hire and train people who did not have college graduates, our hiring standards are already higher now that we are hiring college graduates than before.

The members we are hiring now are becoming fully operational about six months faster than before.

The good thing about our company is that unlike other IT companies, we do not hire science students or hire for career positions. If the current hiring standards make it more difficult to hire, we can lower our hiring standards, even if it delays them in becoming fully operational.

[Q] : How much specialized talents and highly specialized talents have been added through M&A?

[A] : We acquired one company in the first year after our IPO and another in the second year. This year we acquired two companies, but we have not included the number of personnel from our subsidiaries in our forecast for specialized talents and highly specialized talents for the current fiscal year.

In the lower left-hand corner of the table of sales in this mid-term management plan, we have included the following statement.

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

In other words, we are moving forward with plans to create specialized talents from the human resources of our subsidiaries in the next fiscal year.

[Q] : What is the effect of consolidation of subsidiaries?

[A] : To put it broadly, actias Inc. originally had annual sales of 1.7 billion yen and FunClock Inc.

originally had annual sales of about 1 billion yen. In terms of quarters, actias Inc. is expected to generate sales of approximately 430 million yen (1.7 billion yen divided by 4 quarters).

I think there will be an impact of about 450 million yen in Q2 since we will take over our project.

FunClock Inc. is expected to generate sales of approximately 250 million yen (1 billion yen divided by 4 quarters).

When the subsidiary becomes consolidated, it will increase its sales by taking over our projects.

Three or six months of that is reflected, but as we take over our projects, the performance of our subsidiaries will change as sales are replaced or costs are incurred.

As it has been only a short time since becoming a subsidiary, I would like you to consider this as a slight increase from this number.

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

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