

BIPROGY Inc.
Earnings Announcement
for the Fiscal Year Ending March 2022
held on May 6, 2022

Principal Questions and Answers

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

[Questioner A]

Q : I would like to know why outsourcing's gross margin decreased in Q4 (Jan-Mar).

A : We launched a production operation of "OptBAE" for two shinkin banks in Q4. It is a multi-tenant type of service to serve multiple financial institutions. In this connection, we had a load to bear all the depreciation costs for the intangible asset (software) of this service in Q4. This impacted gross margin. We expect an increase in gross margin when the solution begins to serve other financial institutions as planned in the future.

Q : May I ask how much costs were incurred by changing your company name in the fiscal year ending March 2022? Do you expect costs as well in the fiscal year ending March 2023?

A : We had anticipated costs of approx.¥0.5 billion for the fiscal year ending March 2022. It costed us approx.¥0.3 billion, in fact. We also expect costs to be incurred, due to measures that we will take in order to spread the name widely in the fiscal year ending March 2023. The costs will be smaller than the previous fiscal year ending March 2022.

Q : I would like to ask you to summarize the current progress situations towards your achieving the targets described in your three-year management policies (targets to be achieved in the fiscal year ending March 2024: outsourcing revenue of ¥10.0 billion and adjusted operating margin of 10% or more).

A : We position outsourcing business as a great growth driver stated in the management policies. We saw outsourcing service projects being accumulated steadily and we released many of the services in the fiscal year ending March 2022, the first year of the management policies. We think that we have been making steady progress, and we have seen good pipeline conditions. We will be able to achieve the targets of the final fiscal year if we continue to keep an increase in the outsourcing services in the second year and the third year. Outsourcing services' profitability will be improved in accordance with an increase in the number of users. Please look forward to the business from the viewpoint of profitability improvement, as well.

[Questioner B]

Q : You referred to an incurrence of depreciation costs about “OptBAE” in Q4. May I ask how heavy the financial burdens were? I would like to know the direction of the outsourcing business earnings in the fiscal year ending March 2023.

A : We had an increase in the cost burden, a few hundreds of millions of yen, in Q4 of the fiscal year ending March 2022. We plan production operations for multiple customers in October this year and in January next year. Therefore, we will see a gradual increase in gross margin. This increase in the financial burdens will be absorbed and will not be at the level to impact significantly the full-year performance about the entire businesses including other businesses.

Q : You had an increase of ¥10.9 billion in order backlogs to be posted as revenue in the next fiscal year among order backlogs at the end of March 2022. About a half (¥5.3 billion) of the increase are products. I would like to know why you have this much accumulation of product order backlogs.

A : Hardware product order backlogs include products of delivery delay (approx. ¥2.0 billion) due to the semiconductor shortage. Basically, we have already made arrangements for the products. We worked on providing substitutes early in the previous fiscal year. We will attempt to deliver products properly partly through continuing this effort.

Q : I would like to know reasons for an increase in “share of profit of investments accounted for using equity method” in Q4. Also, I would like to know your prospects of the fiscal year ending March 2023.

A : The Company has complied with IFRS since the fiscal year ending March 2022. From the said period, we employ the equity method for companies that used to be not subject to the equity method. As a result, we have had collectively impacts worth a few hundreds of millions of yen including those of past fiscal years. Also, we posted as earnings reversals of impairment loss and performance improvements achieved at our affiliated company overseas. These are only transient factors. We do not take into consideration impacts of “share of profit (loss) of investments accounted for using equity method” in forecasting our performance of the fiscal year ending March 2023.

[Questioner C]

Q : When I see your system services order backlogs at the end of Q3, I would say that you might as well post a slightly more increase in revenue of Q4. Do you think that you posted the revenue of Q4 just as you had expected? Also, the system services’ gross margin is at an extremely high level. Why?

A : We posted the system services revenue in Q4 as we had planned. System services’ small- and medium-sized projects have been steadily accumulated. Earnings from these projects

have been ensured on the basis of the accumulation. Thus, we posted a high level of gross margin for system services.

Q : I remember that you referred to system services partly being posted as outsourcing, when we talked about projects related to outsourcing before. I would like to know about "OptBAE". Which do you post as system services or outsourcing, revenues from OptBAE software development and system structure creation?

A : We post at system services revenues from customizing or tweaking software products in order to make OptBAE services fit each customer. We post at outsourcing revenues from OptBAE solution itself.

Q : You forecast a 5% increase in system services revenue and a 18% increase in outsourcing revenue for the fiscal year ending March 2023. To me it does not strike a balance in light of your order backlog situations. I would like to know your premises.

A : We forecast that system services revenue will be almost unchanged from the previous fiscal year ending March 2022. We will strengthen efforts to increase outsourcing business towards a revenue of ¥100.0 billion.

Q : Your premise for the full-year forecast for the fiscal year ending March 2023 is that you will resume outsourcing gross margin approx. 27%, from 22% in Q4. You said that "OptBAE" will serve new customers in the second half of the fiscal year. Do I correctly assume a grim prospect for outsourcing gross margin in the first half, and a significantly high gross margin in the second half?

A : The gross margin in Q4 will be improved due to new service launches in Q3 and Q4 after suffering heavy financial burdens with depreciation costs in the first half, from the viewpoint of "OptBAE" alone. In the area of other outsourcing businesses, we will have an accumulation of revenues from outsourcing services as we have provided conventionally. Also, we will launch new outsourcing services related to e-commerce in Q2. Thus, we expect an increase in outsourcing business for the fiscal year ending March 2023.

Q : You expect a significant increase in office automation costs, part of SG&A expenses, in the fiscal year ending March 2023. I would like to know what types of costs do you anticipate?

A : We plan to perform business process engineering (BPR) and renovate our internal core systems in order to improve operation processes. We plan system investments for this purpose. Our existing internal core systems are aged. We will digitally transform (DX) the systems all at once. Through this DX effort, we will improve operation processes and create mechanisms to monitor internal data on a real-time basis.

Q : When will your investments for internal system renovation pass the peak?

A : We plan to finish system renovation by the end of the next fiscal year. We are working on it and we expect to see investments pass the peak in the fiscal year ending March 2023.

[Questioner D]

Q : I would like to know causes for a significant increase in hardware gross margin in Q4 compared with the same quarter of the previous fiscal year. Did you have any specific factors?

A : We had posted a hardware project related to GIGA School of low gross margin in Q4 of previous fiscal year ended March 2021. The gross margin is improved due to the effects of entire business mix without the project existing any longer in fiscal year March 2022. We had a hardware project of significantly high gross margin as a specific factor. However, it would not be as critical as to play a key role in ensuring the superiority of gross profit of the fiscal year March 2022 in comparison with that of the next fiscal year March 2023.

Q : Your outsourcing business forecast for fiscal year ending March 2023 includes ¥11.6 billion revenue increase and ¥2.9 billion gross profit increase. Outsourcing business is a fixed-cost business. It would seem to me that outsourcing business might as well be slightly more conducive to profit. Do you expect to bear costs for new services? Or, are you just conservative in thinking about the business?

A : We are conservative in a sense. On the other hand, we believe that it is critical to provide attractive outsourcing services by continuously making investments in upgrading the versions of system functions. If we quit investments as part of business decisions, we compromise the competitiveness of our outsourcing services. Rather, we would prefer to implement a good operation cycle comprising proper investments and enhanced earnings.

[Questioner E]

Q : You had a drop in outsourcing gross margin in Q4 compared with Q4 of the fiscal year ending March 2021. Do you think that the drop is only attributable to impacts from an increase in depreciation costs?

A : There was another factor, as well. It is a transient reverse of costs, approx.¥0.5 billion that increased gross margin in Q4 of the fiscal year ending March 2021.

Q : When you prepared a plan pursuant to the management policies, did you originally incorporate the costs for internal system renovation in the fiscal year ending March 2023?

A : We included the costs in the plan. The costs are for renovating our core systems. We spent much time in examining benchmarks, etc. for solutions that we will use. Now, we are in the phase of implementation. Much of our current business operation process depends upon

manual operations of significantly aged systems, despite robotic process automation (RPA) that we use partly. We have been promoting efforts to renovate the aged systems all at once in the period of the management policies. Also, we have taken into consideration as expected returns on investment (ROI) improvements in the productivity of business operation process to be brought about as a result of this system renovation.

Q : You forecast a significant increase in outsourcing revenue for fiscal year ending March 2023. What business areas do you anticipate an increase, specifically?

A : We have seen an increase in the usage of our various types of services. Specifically, the Corporate DX-type business shows signs of extreme strength at this point in time, among the services in demand. We will begin production operations of our EC-related services in Q2. Also, we have already provided a customer with EC-related services before a production launch in September or October. We have provided services for financial institutions and distribution businesses. We expect an enhancement of services conducive to a resilient society in the area of disaster prevention, as we believe it is part of our mission.

(Note)

Forecasts in this document rely on judgments and assumptions based on information available at present. Actual results may differ from the forecasts due to changes in risks, uncertainties, economy and other factors. Thus, the certainty of these forecast is not guaranteed by our Group. Also, the information is subject to change without prior notice in future. Information in this document is intended to provide further understanding of BIPROGY Inc. and is not intended to solicit investment. This Company shall not be held responsible for any damages whatsoever incurred as a result of utilizing the information provided in this document.