

BIPROGY Inc.
Earnings Announcement
for the Second Quarter of the Fiscal Year Ending March 2023
held on November 1, 2022

Principal Questions and Answers

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

[Questioner A]

Q : The growth of system services orders seems to slow down in Q2 (the July-September period) in comparison with the first quarter (Q1). Can I ask in which business areas the system services orders went well? Also, can I ask if you saw any changes in the situations of inquiries?

A : We received a very large number of orders from financial institutions. Also, we saw strong orders in the power and energy sectors. We had posted an extremely large number of orders in Q2 of the fiscal year ending March 2022. Therefore, you may have an impression that the order intake in this Q2 seems small when you compare it with that quarter. The fact is that a steady order intake continues, as we recognize.

Q : Hardware orders dropped in Q2. May I ask why?

A : We had posted a high-volume orders in Q2 of the previous fiscal year. Therefore, the hardware orders in this quarter may seem small in comparison with that past quarter. For your reference, we expect no concerns that may cause such a backlash in the second half period.

Q : May I ask what caused an increase in the selling, general and administrative expenses in Q2? Also, can I confirm that you make no changes in your full-year performance forecast?

A : We spent and posted legal fees for dealing with an incident of losing USB flash drives. We spent almost as much on renewing our internal core systems as we had done in Q1. We spent slightly more due to supporting robust sales activities. We will work on controlling costs from the perspective of our full-year forecast. We spent legal fees in the low-to-mid nine figures in Q2. We expect some legal costs in Q3, as well.

[Questioner B]

Q : May I ask what drove up the revenue of software and hardware in Q2?

A : Software revenue was driven up by our posting sales of products manufactured by other companies. The other companies' products are licensed products of low profitability. As a result, the products were not conducive in light of gross profit. We know that the products are of low profitability and the products are purchased only transiently without continuity.

However, we intend to sell the products in order to find a foothold for making proposals about other products. We would like to speedily obtain this type of sales opportunities and continue down the road. This is a part of our strategies for future revenue growth.

We posted as hardware sales our electronic shelf labeling solution. The electronic shelf labelling solution also is of low profitability, and furthermore has been exposed to impacts of foreign exchange rates. However, this solution can lead to projects about digitally transforming stores. This is likely to increase new business opportunities through enhanced network capabilities at stores. Therefore, we think that we can avail ourselves of using this as a tool for creating services as we envision. In addition, we share with our customers an increase in procurement costs due to impacts of foreign exchange rates and semiconductor shortages.

[Questioner C]

Q : May I ask when you will receive reports from the Third-party Investigation Committee about the loss of USB flash drives? I would like to know your future timeline in mind such as one about implementing recurrence prevention measures. Also, may I ask for your forecast of costs in total about dealing with the incident, and about impacts on business activities that you perform until you receive orders?

A : We established the Third-party Investigation Committee on July 1. We support the committee in holding about 10 times of interviews and meetings up to this point in time. Furthermore, we established an internal project for preventing recurrence with Hiraoka, the CEO as the manager and Katsuya, the CSO as the sub manager. It began operations in July. We have been implementing initiatives in sequence such as those of inspecting the operation that caused the incident and preparing procedures for recurrence prevention, re-confirming security, and providing e-learning training. We are not in a position to explicitly indicate when we will receive reports from the committee at this point in time. We think that we will receive reports before the end of this year. We have already made efforts to prevent recurrence based upon our internal deliberations rather than sitting by until reports coming in.

In addition, we had legal fees incurred due to the incident. We think that we have suffered no costs that may impact significantly our business. This shows that our engineers and sales reps and our subcontracting companies, etc. have been managing to increase productivity in performing business with an awareness of recurrence prevention kept in mind. There is a possibility that we may spend more depending upon contents of reports from the Third-party Investigation Committee in the future. However, we do not expect a drastic increase in costs at this point in time.

In light of impacts upon our business activities that we perform with the aim of receiving orders, we have been punished. We are banded from bidding and we are suspended from operations for the public entities. However, our business with government agencies and local municipalities has not been large in size. Therefore, we see no large impacts on the entirety of our businesses.

Q : You referred to seeing signs of demands rising again from customers who suffered impacts of the COVID-19 pandemic. May I ask for specifics of the demands?

A : We see strong demands for digital transformation. Our new DX services are appreciated and endorsed. We have seen an extreme increase in inquiries from financial institutions and public agencies and companies of other sectors such as distribution/logistics and manufacturing. We feel the strength of our new DX services. We are beginning to receive orders worth a few billions of yen from air carriers and companies of the entertainment industry although the orders are not completely back at the pre-pandemic levels. Having said that, we know that we have not seen recoveries of our payment and settlement business based upon QR codes. This is due to Chinese customers not returning to the Japanese market as yet.

[Questioner D]

Q : In light of the full-year forecast about SG&A costs, SG&A costs in H1 seem large. May I ask if you lose control of any cost and let it increase?

A : The loss of USB flash drives blindsided us. Unexpected costs were incurred. Costs for renewing internal core systems are expected to be slightly smaller than we expected at the beginning of the fiscal year. On the other hand, costs about sales activities in H1 were slightly large. We need to monitor and control the costs.

Q : You have already come halfway through the three-year mid-term management plan. If you fail to achieve your adjusted operating profit target, ¥34.0 billion for the fiscal year ending March 2024, how do you deal with your ROE target, 15%? May I ask if you think any measures out of the Profit and Loss account such as share repurchase as your option?

A : We intend to generate target profits just as we indicated in the management policy since we believe that an achievement of the ROE target, 15% is an outgrowth of the efforts. We do not think about share buy-backs for that particular concern at this point in time.

Q : Your presentation materials refer to your initiatives for enabling a de-carbonized society with your future growth in mind. I have seen diminishing signs of your businesses related to local autonomous bodies. Do I assume correctly that you are leaving behind man-month businesses and moving ahead with servitized business models?

A : We are seeking to reduce businesses based upon human workloads, and so we have been shying away from bids about projects for local governments. We aim to mainly work on servitized businesses in cooperation with local autonomous bodies, such as MaaS businesses for revitalizing regional economies and promoting local energy generation and consumption. We believe that we are following the major trend of service-based businesses replacing human-workload businesses. However, we will conduct a certain percentage of man-month businesses in order to gain references for creating service-based businesses. We aim to

create a business flow in which we can ambidextrously harness our system creation capabilities and create service-based businesses with the capabilities at command.

[Questioner E]

Q : The increase in the system services revenue in Q2 seems to me small in light of the order backlogs accumulated at the end of Q1. I expected that many of DX projects would be delivered shortly and its revenue would be quickly posted. But, do I now assume correctly that long-term projects such as those for renewing core systems were included in the order backlogs at the end of Q1?

A : DX projects have become diverse. On the one hand, DX projects can be on a small scale. On the other hand, DX projects related to branch office operations for financial institutions can take a slightly long time. In addition, we have received many inquiries from relatively large customers about data-driven services to realize omnichannel businesses, and adding on services functions can also become a piece in the total picture. We do not necessarily operate DX-related projects quickly as you may expect. In addition, we have large-scale system development projects for financial institutions, and these projects help us to obtain opportunities of implementing outsourcing services businesses down the road. In short, we operate various types of projects in the category of system services.

[Questioner F]

Q : May I confirm that you posted a one-time or transient special system services order in Q2 of this fiscal year and the previous fiscal year?

A : We had received an order of large-scale project from a local government in Q2 of the previous fiscal year. We had none in Q2 of this fiscal year.

(Note)

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