

BIPROGY Inc.
Earnings Announcement
for the Third Quarter of the Fiscal Year Ending March 2023
held on February 1, 2023

Principal Questions and Answers

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

[Questioner A]

Q : May I ask for walking us through key changes in the gross margin by segment for the third quarter (October to December period)?

A : The gross margin of System Services has been improved for any business segments that you may mention, specifically for large-scale projects related to the service industry and the financial industry. Highly profitable projects (relatively speaking) related to digital transformation (DX) have increased continuously. We have seen no significant changes in other segments.

Q : May I ask why you had an increase of 38% in the outsourcing order amount in this third quarter compared with your last Q3?

A : We received and posted orders from financial institutions (shinkin banks) for long-term OptBAE project in the third quarter. Separately, OptBAE had already begun to serve two shinkin banks in October 2022. In other words, the orders in this Q3 are from the other shinkin banks, not the predecessors.

Q : You have your OptBAE customers. As a matter of fact, they used your previous system. They switched over to OptBAE, your new open core-banking system, and they have become OptBAE users. Can I correctly assume that the mere switchovers do not mean a net gain?

A : OptBAE began to serve seven shinkin banks in January 2023 in addition to two shinkin banks in January 2022 and another two shinkin banks in October 2022. Although we perform many switchovers to enable our existing customers to use OptBAE, the replacement for the previous services, we actually aim to find new customers. In addition, we plan to receive orders for our solutions related to sales office duties through promoting use of the open core-banking system. We expect revenue there.

[Questioner B]

Q : You had a slight decrease in the Outsourcing revenue in Q3 compared with your number in the second quarter (July to September period). May I ask if it is partly due to cancellation?

You had a decrease in the Outsourcing gross margin, as well. May I ask if you had any special causes?

A : We experienced no major cancellations, although we had slight changes in the revenue depending upon Outsourcing projects. We have provided the Outsourcing service and have seen a steady growth of it, as partly indicated in our suffering few cancellations. We have seen no special factors about the gross margin issue*.

(* Supplementary Info. & Correction) Part of depreciation costs about devices in the previous systems that were replaced in Q3 just continued. The gross margin was impacted, accordingly.

Q : May I ask for factors that caused a decrease in the finance income of the third quarter?

A : We had gain rather than loss on valuation of investment funds based upon the yen's depreciation up to the first half of the fiscal year under review. However, the yen changed its direction towards appreciation in Q3. Thus, we lost the currency tailwind. You might as well put into the context of comparative thinking the fact that we had extremely favorable conditions in the same quarter of the previous fiscal year.

[Questioner C]

Q : How will your performance be impacted in Q4 and thereafter, due to OptBAE?

A : OptBAE will begin to serve seven shinkin banks additionally in Q4. Thus, we expect an increase of 0.3 to 0.4 billion yen in the OptBAE revenue in Q4 compared with Q3. OptBAE began to serve two shinkin banks in Q3. We calculate that the total OptBAE services including the service will have a positive impact worth approx. 2.0 billion yen per year. Please note that our existing customers need to implement a 'switchover'* in order to use the OptBAE services. For us, as a result of the switchover, we will suffer a decrease in the revenue from the services that we provided in the past. Thus, OptBAE services do not mean an increase in the net revenue if we put the switchover impacts into the equation.

(* 'Switchover' refers to switching over to a new open core-banking system, as already mentioned.

Profit will suffer impacts of remodeling costs incurred for quality improvement and our depreciation about our services to begin for new customers. Thus, we know that a revenue increase will not necessarily mean an improvement of profitability.

The 'OptBAE' solution is designed to support shinkin banks in strategically shifting the focus over to front-end systems mainly at sales offices, unlike the banks did in the past on core-banking systems. This is exemplified by our existing shinkin bank clients that revise arrangements at the sales offices in order to launch services to strengthen interactions with their customers. We can expect an increase in the future revenue by helping the clients further accelerate their DX initiatives.

Q : May I ask if you can expect an increase in the outsourcing services other than your outsourcing services for financial institutions?

A : We think that we will see significantly strong needs for our services such as DIGITAL'ATELIER, an electronic commerce (EC) solution as well as those in the areas of Online to Offline (O2O) and omnichannel sales, due to changes that we have seen in sales methods in the retail industry and the manufacturing industry. In addition, we have seen a steady increase in the number of users of 'Drive Recorder' event data recorders as well as subscribers of power companies served through our solutions for many years. We expect that those services will contribute to an increase in the outsourcing revenue in the future.

Also, we would like to refer to the Managed Services Center that we established in order to enhance the outsourcing business as we publicly announced in the news release today. Our group will work on providing services in a united fashion.

Q : I think that your securities firm customer made a cancellation. May I ask about impacts on your performance?

A : We think that we will have no significant impacts on our performance.

[Questioner D]

Q : May I ask why the System Services order amount only modestly increased compared with the same period of the previous fiscal year? Also, may I ask about your forecast in the future?

A : System Services order amounts depend upon system service project phase breaks. We were slightly short of large-phase orders in Q3. On the other hand, we have had extreme strength from projects in the pipeline, as partly evidenced by our having received unofficial orders for large-scale projects. We would like you to keep in mind that we receive large-scale project orders divided by phase, and orders are small if the orders refer to the first phase. If we look at the entire picture, we appreciate a significant large quantity of orders including those about large-scale projects and medium-sized projects.

The System Services order amount in the third quarter of the previous fiscal year increased by approx.20% on a year-over-year basis. It is attributable to posting large-scale projects in excess of 2.0 billion yen. We had a good time in the previous fiscal year partly due to that one-off event. In comparison, it would seem that our order amount in this quarter is slightly shy. If we take this factor out of the equation, we have posted positive order amounts generally for any business segments. We have seen no changes in the momentum in the order environment.

Q : May I ask why the hardware gross margin is smaller in this third quarter on a year-over-year basis?

A : It seems smaller than the third quarter of the previous fiscal year. We posted a highly profitable project related to real estate businesses in the past quarter.

Q : You will have the final fiscal year of your Management Policies. You have known your Q3 performance results. May I ask if you do not see that you are in the situation where you may think about revising your profit targets?

A : We would like to report formally on our situations of the next fiscal year on the occasion of announcing the next financial results. We evaluate that we have been extremely well in every business area. In the next fiscal year, we look forward to what we can expect from very many projects, and we will make sure of achievements. Also, we have been proceeding with many projects and we will continuously ensure on-time deliveries and launches as scheduled. Through these efforts we would like to make steady progress with the targets indicated in our Management Policies kept in mind.

(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 the Company Group 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.