

Q&A Summary of Financial Results for FY'24/2 Q2

Q. I would like to know about the utilization rate of engineers and the unit price of engineers.

A. I would like you to understand that the utilization rate of engineers is almost at full capacity at the first half of the current fiscal year has just ended. The business environment has remained favorable in the second half of the year, so we have no problem with the utilization rate. In addition to the current business, we have already received many inquiries from customers about projects for next year. Therefore, we expect the occupancy rate to remain stable in the future.

However, we would like to avoid pursuing excessively high utilization rates, which may result in not having enough time for human resource development and training, as stipulated in the new Medium-Term Management Plan, and we will continue our efforts with sustainable growth in mind for the next 5 to 10 years.

Regarding the unit price of orders, we negotiate the unit price of new orders based on the content of new proposals.

On the other hand, for existing projects, we believe that there is still room for improvement, and we will continue to make such improvements.

Q. Please let me know how the new employees who joined the company in April of this year are getting on.

A. We have 34 new employees who joined us in April, and all of them are currently participating in various projects and engaged in development work. While working on development work, they are also undergoing OJT by senior employees to help them understand the style of development work and the culture of our clients and to strengthen their technical skills.

In addition, as I explained earlier, we are making steady progress toward hiring more than 40 people for the coming spring. Since human resources are our most important asset and the source of our business activities, we will continue to invest in human resource development and education.

Q. Please tell us about the forecast for orders and earnings in the second half of the year.

A. In terms of the forecast for orders and business performance for the second half of the fiscal year, we are aiming to achieve the highest sales, highest profit, and highest profit margin in the current fiscal year, with sales of JPY13.6 billion, operating income of

JPY1.3 billion, and an operating income margin of 9.6%. The business environment is extremely favorable, and I am confident we are on track to achieve these goals. I have instructed the business side to focus on business acquisition for the next fiscal year. At the same time, we are preparing our development structure for the next fiscal year. In the second half of this fiscal year, we will make strategic investments not only for the next fiscal year but also for the years to come, develop human resources, and plant seeds for solution development, alliances, and other activities to build a base for sustainable growth. In particular, we have high expectations for the next-generation energy-related business that is about to begin, and we will do our best to make it a success.

Q. Your company is promoting a strategy to differentiate itself from other Slers in the industry with solutions such as location information and security. I would like to ask you about examples of solutions-related topics and your progress in the current fiscal year.

A. Regarding the solutions business, I believe this is a year for solidifying the foundation and planting seeds in the three areas of GIS: geographic information systems, IoT geospatial information, and security.

As one of the results of these efforts, we have expanded alliances with Schneider Electric and ZENRIN CO, LTD. As for the development of the solutions business, we still think that it is a solutions business that matches all of our core business and social infrastructure business.

It is also true that we are making progress in a great number of GIS projects, especially for electric power companies and surveying companies. In terms of new solution development, we have recently released COCOYA, a mapping service, and are in the process of expanding our product lineup. We will continue to focus on the results of these efforts in the new Medium-Term Management Plan.

Q. I would like to know how the Nagoya office, which opened this spring, is operating.

A. It has been a little more than half a year since we opened the Nagoya office, and our sales activities have been focused on creating a new energy business in the Chubu region, which had been an unoccupied area until now.

We are now in the process of expanding our business nationwide so that when it comes to ICT systems for energy, people will think of Ad-Sol Nissin. We have already started cooperative business with manufacturers and some projects. Although I cannot give you specific themes, we have already received inquiries about businesses linked to next-generation energy, which is one of the goals of our new Medium-Term Management Plan.

We have also started new businesses with infrastructure companies based in the Chubu region and have received orders for projects. Over the past six months, our sales and proposal activities have steadily produced results, which we will continue to nurture.

Q. What are the reasons for the decrease in orders and order backlogs from the previous year?

A. First of all, orders received decreased for the three months from July to September. However, the total orders for the first six months of the first half increased. Based on the current situation in the first half of this fiscal year, I do not think we need to be concerned, and I am confident that business will continue to grow steadily in the second half and beyond.

Part of the reason for this result is the previous year's orders. There was a change in the form of a contract for a large aviation project. In the previous fiscal year, this was done on a lumpsum contract basis, but this has now been changed to a monthly contract.

As a result, there is no change in the development structure, but orders appear to be decreasing compared to the same period of the previous year. The order backlog is also decreasing for these reasons, but as I explained earlier, we are seeing stable growth on a quarterly basis.

The business environment has been very favorable so far, and we have already received many inquiries about projects for the second half of next year and the year after, so we are receiving very high recognition from our clients. To ensure that we achieve our business plan for the current fiscal year, I myself will work hard to meet the expectations of our clients.

Q. I would like to know the reason for the increase in gross income margin.

A. The gross income margin has been steadily increasing every fiscal year, as shown on page 3 of the financial results materials. There are multiple reasons for this, but one is that the number of projects we receive orders for is increasing in the so-called upstream, such as consulting. We also believe that our combined efforts to optimize contract terms and conditions, negotiate unit prices, and improve efficiency in the use of partners have led to higher profitability.

Other than that, we believe that the most important factor is the fact that we have had no troubling projects up to this point. We have made many enhancements on the quality management. As a result, I think the best thing is that there have been no issues.

When a project has a problem, it can have a negative impact not only on business performance but also on the motivation of the employees who deal with the project.

Therefore, we believe it is necessary to strengthen our quality response measures since such incidents can be quality concerns or productivity issues.

We believe that there is still room for further improvement in profitability, but employees are the most important assets. While continuing the initiative in revising employee compensation, improving employee engagement, and providing training, we will continue the initiatives to increase the gross profit margin.

Q. You introduced your business development and initiatives in Vietnam, and I would like to ask you how these initiatives will contribute to your company's profitability.

A. We are strengthening and establishing an offshore development system in Hanoi, Da Nang, and Ho Chi Minh City in Vietnam. Particularly in Da Nang, as I explained earlier, we are actively recruiting Vietnamese students who have graduated from Japanese universities, and we are also providing support partnerships for those students who want to start their own businesses after returning to their home countries.

In addition, when viewed as an offshore development base, Vietnam has become a country where cost advantages can still be demonstrated compared to Japan.

This time, we have formed a capital and business alliance with Techzen CO., LTD. and an industry-academia partnership with Da Nang University. We will make good use of these frameworks to train engineers who can respond to our high-quality capabilities and improve our profitability. In the future, we hope to help solve the social issue of the shortage of highly skilled IT personnel.

Q. The fee-based electricity data has been in full swing since October, but are you involved in the development of this platform? Please tell us about the current business status of utilizing electricity-related data.

A. In terms of the use of data on electricity, the paid use of electricity data has been started sequentially in 10 areas nationwide since this October. The data obtained from approximately 80 million smart meters nationwide will be used to provide services and statistics, and other data can be obtained through a subsidiary company called the Management Association.

We have not been involved in developing the platform that provides fee-based use of electricity data through the Management Association. However, as I mentioned earlier, smart meters have been installed in each household, and we have been involved in system development for collecting smart meter information. So, even though we are not directly involved, we are indirectly involved.

Going forward, electric power companies are also expected to promote initiatives to

reform their businesses and improve customer service by using such data. We are already providing consulting services for some of these projects, but the specifics are still to be worked out, and our policy is to support power companies in their use of data.

Q. I have a question regarding the revision of employee compensation and would like to know the outlook for the next fiscal year and beyond.

A. In April of this year, we revised our employees' compensation by an average of 5% and a maximum of 30%. We are currently considering revisions for the next fiscal year and beyond, so I would like to refrain from discussing them at this time. As I have said many times before, our company's assets are employees. We will consider various initiatives to acquire human resources and improve employee engagement.

Q. I think securing resources to expand sales is important, but what is the status of securing partners?

A. We recognize that in a business category such as ours, it is extremely important to secure human resources, including the utilization of partners, in order to accelerate our business.

We do not have any major problems at this point. We expect the shortage of human resources in this industry to continue in the future, and there is a possibility that the skills, development methods, and technologies required will change.

Thus, as we look ahead, we will continue to cooperate in building further relationships with our domestic and international partners, forming relationships of trust and, at times, encouraging them to work with us as we move forward in our business. We will also continue to work to produce positive results for our customers, our partners, and ourselves.

(Note) English documents are prepared as a courtesy to our stakeholders. In the event of any inconsistency between English-language documents and Japanese-language documents, the Japanese-language documents will prevail.