

Q&A Summary of Financial Results for FY'24/3

Q. Regarding electric power related projects, how much renewable energy-related development is coming in? Please tell us about this, along with future market possibilities.

A. I think the key point for us is not so much the renewable energy, but the power grid, the system related to the power grid that transports electricity.

Currently, the energy generated is not being fully utilized, as evidenced by the output restrictions on renewable energy in the summer.

There is a move toward systemic management of this situation, which is expected to progress in parallel with the renewal of systems and facilities. We will continue to make preparations to respond to these needs, as we already have several PoC (Point-of-Care) demonstrations underway. Although I think it will take a little more time to go into full swing.

Q. Could you please show us a tree diagram of the estimated return on equity and your policy for raising it over the medium to long term? One more thing, could you please put forth a strong commitment from management to raise the share price and P/B ratio?

A. I have explained the key points for improving ROE in the form of a logic tree in the material I have just presented.

First, we will accelerate the growth of our business, specifically, we will firmly implement initiatives that will lead to the structural transformation of our business model, such as the expansion of our consulting and solutions businesses, and show this growth to enhance our corporate value.

In addition, we recognize that there are many more measures we can take in terms of financial strategy. We will strive to increase corporate value through both business expansion and various implementations at the right time and at the right place.

Q. Regarding the factors that contributed most to the change in gross profit, what were the biggest contributors, such as higher unit prices and upstream process advancement? Is there a change in the quality of the projects?

A. First, in terms of the quality of projects, we were able to handle the upstream phase (consulting), and provide our unique solutions such as geographic information systems.

In terms of unit price increases, we believe that the government's request for compensation revisions, as well as our long-standing track record and expertise, were highly regarded

by our clients, making it relatively easy for them to accept our negotiations on unit prices. In addition, to reduce the cost ratio, we have cut costs through offshore development, mainly in Da Nang, Vietnam, as well as through quality activities aimed at eliminating project problems and selective order receipt, the combined result of which has improved the gross profit margin.

This time, after absorbing the cost increase due to the significant revision of employee compensation, earnings further improved, which I believe is a significant point. We will continue to respond to our employees, who are our greatest asset, and we will continue to shift to the upstream phase (consulting), and change the quality of our business, which we hope will further increase our earnings.

Q. At the end of the last fiscal year, you had record orders and order backlogs, and I assume that the business environment is very favorable. Is it safe to assume that this order situation will continue in the current fiscal year?

On the other hand, given the growth rate of the previous fiscal year and the record-high orders and backlog, the forecast for the current fiscal year seems quite conservative. You explained that the profit will be affected by upfront investment, but what is your assumption for the target of 3% sales growth?

A. Orders and order backlogs have reached record highs and are continuing to grow steadily.

On the other hand, we plan to expand investments during the three years of the medium-term management plan for sustainable growth beyond 2030, and in order to execute this plan as planned this fiscal year, we have set "14.5 billion yen in net sales," which is the operating result forecast for the current fiscal year, as the must-achieve target, and will proceed with strategic investments with this as the lower limit.

As shown on slides 20 and 21, investments will move in a negative direction in terms of business performance, but we believe that strategically advancing these investments will lead to business structural reforms toward 2030, which in turn will enhance corporate value, while keeping the achievement of the earnings forecast as a minimum goal. Therefore, we will continue to work toward this goal, while keeping the achievement of our earnings forecast as a minimum target.

If there are any changes in the outlook, we will promptly make various announcements.

Q. If the performance targets of the medium-term management plan are achieved ahead of schedule in the current fiscal year, will the targets be revised upward for the next fiscal year? Or will a new plan be issued separately?

A. It is very difficult to answer your hypothetical question right now. First, we believe that the

most important thing is to achieve financial results forecast for the current fiscal year. We would then like to establish a target as soon as possible and present our performance plan, including the next fiscal year, in a manner that meets the expectations of our shareholders and investors.

Q. I assume that hiring will become more important in order to increase performance in the future, but there seems to be no change with 38 hires for the current fiscal year. Is there a state of difficulty in hiring? Also, what are your thoughts on future hiring and human resources?

A. This fiscal year, 38 people joined the company, an increase of 4 over the previous year. There is the idea of prolonged recruiting, but we are not aware of any particular difficulty in recruiting. We are able to recruit the best students from all over the country. I have also received reports that recruitment activities for next April are going well so far, with more than 50 people currently being hired. The greatest asset of our business is our people. We will continue our efforts to hire new graduates as well as experienced workers. We will also continue to invest in developing the people we hire into project managers and consulting personnel who will lead development projects.

Q. I have the impression that this is the most competitive industry due to the shortage of human resources. Aside from hiring, do you have enough partners? Also, are current partners able to handle advanced initiatives such as AI and space?

A. I believe that the ability to mobilize human resources is essential to our business. We are currently working with between 100 and 150 partners in Japan. In addition, in Da Nang, Vietnam, which I mentioned earlier, we are currently working to develop a 1,000-person offshore development team through a partnership with Techzen, a company established by one of our alumni, and also by training advanced IT personnel, including those from Da Nang University in Vietnam.

Meanwhile, we are also strengthening our collaboration with partner companies as we advance our efforts to respond to advanced areas such as space and AI. Especially in this advanced area, we would like to deepen cooperation with partner companies that share our philosophy.

Q. Do you have a future sales composition ratio target for consulting-related projects?

A. As I often tell our employees, our ultimate goal is to turn all of our employees into consultant.

We will make our business 100% consulting business, while dividing our roles with our

partner companies to handle the development phase, in order to evolve into a consulting company specializing in social infrastructure.

We recognize that consulting is very important part as we strengthen our human resource development. and I am personally working to ensure that this will greatly increase sales in the future.

Q. Is the solutions business currently profitable? What kind of contribution do you expect to make in terms of profit margin in the future?

A. The Solutions Business provides our proprietary solutions such as GIS (geographic information systems) and IoT, and is of course profitable. And we believe there is still room for profitable growth.

The solutions business is a stock business in which profits can be generated regardless of the number of employees, or to put it in the extreme, "sales = profits," and we are particularly looking forward to the conversion of products into services.

We intend to increase our contribution in the highly profitable consulting business by leveraging our high level of expertise and technical capabilities. One example is "GIS (Geographic Information System). We have launched our first subscription service, "COCOYA," as a solution utilizing "GIS: Geographic Information Systems," and it has attracted a great deal of attention from our customers.

It has been four years since we started our solution business in earnest. We look forward to continuing to promote the expansion of our business.

Q. What is your approach to M&A? When you think of acquiring new business or replenishing human resources, which do you envision as the priority?

A. Regarding the concept of M&A, our company is highly regarded as a technological Ad-Sol, and all of our employees are proud of the fact that we are a company with strengths in technology. Recently, various innovative technologies such as generative AI have been introduced, and we would like to further strengthen our strengths in these and other technologies.

At the same time, we would like to actively engage in M&A. In response to M&A, we would like to further develop our strengths or complement each other's strengths, even though our priority may be to secure personnel with technical skills. Since our goal is to achieve M&A that will allow both parties to grow, we would like to consider a wide range of M&A opportunities, not only in the same industry but also in different industries.

Q. What do you think is the biggest challenge at the moment to increase P/B ratio in the future?

A. In terms of the current challenges to raising P/B ratio, we believe that two initiatives are necessary to raise P/B ratio: improving P/E ratio and improving ROE. I recognize that this is an important issue for growth, capital efficiency, and dialogue with each of you.

There are some areas where we are beginning to get a concrete sense of the issues and the direction of the project. We would like to have another opportunity to disclose the information after we have compiled it, including the points you have just asked.

(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.