

## Q&A Summary of Financial Results for Q2 FY'25/3

The following is a compilation of the main questions received from those who attended the financial results briefing.

Some of the content has been added or revised to facilitate understanding.

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**Q. With new plans for data centers and semiconductor factories being announced one after another, concerns about power shortages are growing. Could there be business opportunities related to securing and efficiently utilizing power? Additionally, what are your competitive advantages and business strategies in this area?**

A. We consider that there are significant business opportunities due to power shortages associated with plans to build new data centers and semiconductor factories, and we are working to further focus our efforts in this area.

The importance of various energy management systems is now being recognized, in data centers and other facilities that consume large amounts of electricity. Specifically, our efforts focus on energy conservation, the use of renewable energy, and optimization. In addition to these, as mentioned earlier in the briefing, we are also addressing electric power quality control.

For many years, we have been working closely with Schneider Electric and are familiar with the company's energy management products, which are highly acclaimed around the world. We will leverage the electric power-related know-how we have developed since our founding to contribute to the adoption of energy management systems in Japan's data centers, bringing them in line with global standards. We are planning to establish a dedicated task force specializing in energy management. We hope you will look forward to these developments.

**Q. You have revised the full-year operating forecast upward, but the outlook shows lower sales and profits for the second half. Typically, sales and profits are higher in the second half. If there is a specific reason, could you please explain?**

A. From the perspective of the business environment, there are no concerning factors, and I believe the business remains strong. Please rest assured about this, first and foremost.

We are strengthening our sales activities and making investments aimed at ensuring continuous business growth over the next year, as well as the next five to ten years in this second half.

The forecast for operating income is due to the impact of these investments. We will strive to achieve our revised targets.

**Q. It has been mentioned that the gross profit margin is trending upward. Is there room for further improvement? Do you believe it is possible to reach the 30% level?**

A. Traditionally, our business has been centered around system development. However, in recent years, upstream (consulting) projects and original solutions—such as geographic information systems—have been significantly contributing to our business and driving profitability upward.

Additionally, as price negotiations have been proceeding relatively smoothly, this has led to securing orders at higher price points compared to the past. Furthermore, we are dedicated to offshore development in Vietnam, particularly in Da Nang, which has led to a reduction in the cost ratio. Since project issues can impact profitability, we are continuously working on quality control. Overall, these measures have led to improved profitability.

Going forward, we will naturally continue to make various investments, for medium- and long-term growth, while continuing our efforts to further improve profitability.

**Q. The revised operating margin for the second half is projected at 10.7%, down from 11.5% in the first half. Is this simply a conservative assumption, or are there specific factors contributing to this decline?**

A. In the second half, as outlined in the Medium-Term Management Plan, we intend to focus on investments and education initiatives

This time, we have renewed the Kyushu Branch. We are also strengthening consultant training to enhance our capabilities in upstream processes. In addition to training in agile development, we are also working to develop business related to AI. These efforts may have an impact on operating income. However, by steadily executing our business plans in the second half, we aim to meet everyone's expectations.

**Q. Out of the JPY3.3 billion in energy orders for the first half, how much is related to next-generation energy?**

A. While next-generation energy business is still in its early stages, we have received many inquiries from our client companies.

In the next-generation energy business, in addition to the know-how we have cultivated up to now, the use of AI is also important to further transform our business into a high-growth business. We hope that you expect us to build and provide new next-generation energy management systems, including the use of AI.

**Q. It was mentioned that the business environment is favorable. Can we understand**

**that orders for the second half are also expected to be at record-high levels? Additionally, when is the Advanced Industry Business expected to achieve revenue growth?**

- A. Orders for the second half are indeed expected to reach record-high levels. As for the Advanced Industry Business, it is currently facing challenging conditions. However, the Advanced Industry Business is currently seeing increasing demand and investment from client companies. We aim to recover and achieve growth as we move toward the next fiscal year.

**Q. Energy management, the Leap series, and the shift to consulting focused on social infrastructure all seem to be businesses with strong growth potential and high-profit margins. However, this fiscal year's revenue increase is only JPY1.3 billion, and the profit increase is less than JPY300 million, which gives the impression that the figures do not align with the image. As the president, what market capitalization are you aiming for?**

- A. We are seeing steady growth, particularly with energy management systems and the new Leap series offerings.

Regarding market capitalization, we are always mindful of it. I don't believe this is the place to state a specific target for the next market capitalization figure.

For our business, our keywords are growth, stability, and challenge.

We have been actively investing in and achieving solid results with our proprietary solutions, such as geographic information systems and IoT. Gross profit has been performing very well. Additionally, we have been engaging in new businesses related to digital transformation such as data utilization and strengthening human resource development efforts.

These efforts are currently being highly valued by our client companies and are becoming a significant portion of our revenue. I believe we are at a pivotal moment of transformation—from a company focused on traditional system development to one specializing in consulting for social infrastructure.

In this context, to further enhance the appeal of our company, we are considering AI-related services. We plan to launch a "Generative AI System Construction Service" as the first phase, which will help our client companies solve their problems by utilizing our knowledge and know-how gained through the construction of our proprietary generative AI "AdsolChat". Following that, we would like to offer "AI service consulting," including AI consulting and other AI utilization services as the second phase.

Next year, leveraging these initiatives, we aim to continue driving our growth, stability, and

challenge. We sincerely hope for your continued guidance, support, and expectations in the future.

**Q. In order to further increase the operating profit margin, it would seem necessary to transition from development to more stock-based or software-based subscription services. Can we assume that the next Medium-Term Management Plan will move in this direction? We believe it will be quite profitable.**

A. In aiming for high profitability, we believe it will be important to shift to a stock-based business model where revenue directly translates into profit. In addition, we need to commercialize AI services and consulting business specialized in social infrastructure. We aim to leverage our extensive experience and expertise in social infrastructure, from upstream processes to maintenance and operations, to address our customers' challenges. This will involve systematization and stabilization of maintenance and operations. We also plan to strengthen our consulting services in these areas. Therefore, we will certainly consider this direction in our next Medium-Term Management Plan.

**Q. Could you share the medium-to-long-term outlook for expanding consulting personnel, and to what extent do you expect the gross profit margin and operating margin to increase compared to the current situation?**

A. To focus on consulting services, I often tell our employees that we are striving for a company where every employee is a consultant. With the cooperation of our partner companies and our offshore development team in Vietnam, our employees are able to concentrate on upstream (consulting) phases. Therefore, we are investing in employee education, advanced engineering, and consulting to enhance these areas. By making these investments, we aim to grow into a consulting firm. While consulting will be a key focus, we will also integrate other business areas. Overall, our goal is to quickly increase the operating margin to the high 10% range.

**Q. The revenue forecast has been revised upward by JPY800 million from the initial projection of JPY14.5 billion. Which areas have grown the most compared to the initial forecast, and what are the reasons behind this?**

A. The main contributors have been our core energy (electricity and gas), as well as the service (payment and credit cards), particularly in digitalization. Digital transformation / modernization-related projects, which are set as a base load in the mid-term plan, have been major driving factors for our growth.

In particular, the electricity sectors have seen a significant number of orders. Since our founding 50 years ago, we have been deeply involved in the electricity business. We have been able to provide various know-how that allowed us to compete with major system integrators, going beyond just development. I believe this has led to where we are now. ICT investment by electric power companies will continue to be strong, and we anticipate various business opportunities in the future, such as system development demand associated with national policies. We look forward to your continued support.

**Q. There is an anticipated shortage of system engineers in the industry, but it seems that you have taken swift action through partnerships, talent development in Vietnam, and focusing on specific areas. While money is important for retention and improving employee retention rates, are you also mindful of providing growth opportunities and working with social significance? Additionally, with the increase in new graduates, what has been the retention rate so far?**

A. There are almost no employees who leave within the first three years. Therefore, through various training programs and curricula, our new graduates are growing steadily after joining the company. We are truly pleased with this progress.

Additionally, to further solidify the expertise of our employees moving forward, we continue to offer various educational initiatives. In particular, we have established a specialized organization, the Human Resources Development Center, where we focus on training employees in new technologies and advanced IT engineering. We guide our employees on the path they should take, helping them envision their future while working together with them to provide the education necessary for their development.

Many of our employees set various goals, whether for three years, or five years ahead, and are growing alongside the company. Therefore, we will continue to invest in education that is focused on developing specialized expertise.

With the intention of rewarding employees for their hard work and growth, we have revised their compensation for two consecutive years and will continue to consider doing so in the future.

(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.