Industry Environment

The environment surrounding the Japanese economy is expected to remain difficult to forecast, in light of a series of unexpected and strong risks, including the protracted war between Russia and Ukraine, the sluggish European economy, the substantial depreciation of the yen brought about by the strong U.S. economy despite monetary tightening, and the war between Israel and Hamas. Against this backdrop, demand for software has been solid, confirming that fully fledged digital transformation is underway. The Bank of Japan's *Tankan* survey of capital investment shows aggressive investment plans for software at a level not seen in recent years.

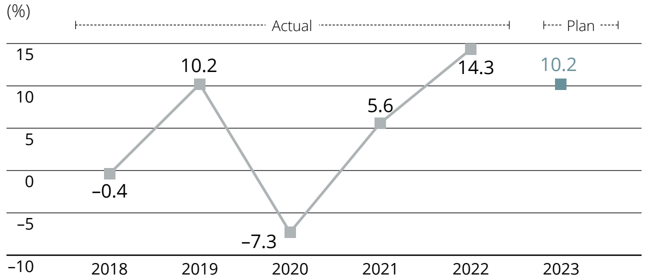
Global Economic Growth Forecasts

(%)

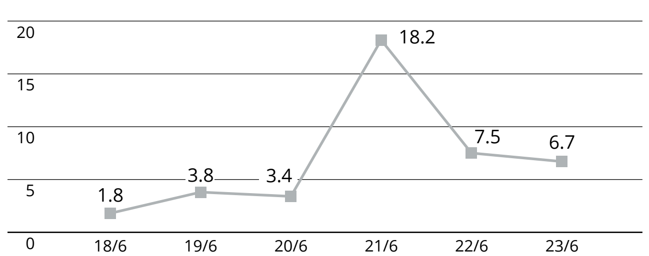
	2021	2022	2023 (estimate)	2024 (forecast)	2025 (forecast)
Global	6.2	3.0	2.6	2.4	2.7
Developed economies	5.5	2.5	1.5	1.2	1.6
Japan	2.6	1.0	1.8	0.9	0.8

Source: THE WORLD BANK

Tankan: Software Investment (all industries)



Sales Growth of Information Services Industry (YoY)



Compiled by Avant Group from METI, Survey of Selected Service Industries

Analysis of Operating Results and Financial Position

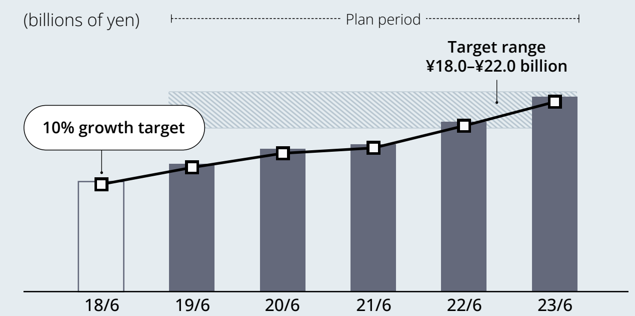
In September 2018, the Group formulated a new five-year medium-term management plan BE GLOBAL 2023 for the period through the fiscal year ended June 30, 2023, with the goal of "becoming a world-class software company." In the plan, the Company set targets for the following six items: sales, recurring sales ratio, operating profit, sales growth rate + operating profit ratio (GPP), ROE, and dividends. The targets for each of these items and the progress made during the fiscal year ended June 30, 2023, which is the final fiscal year of the plan, are as follows.

Key Performance Indicators (KPIs) of "BE GLOBAL 2023"

		19/6	20/6	21/6	22/6	23/6	23/6 (target)
Operational KPIs	Net sales (¥ billion)	14.07	15.69	16.23	18.70	21.42	18.0–22.0
	Operating income (¥ billion)	1.96	2.27	2.79	3.24	3.28	3.1–3.8
Strategic KPIs	Recurring sales ratio (%)	31.4	32.6	36.0	34.6	35.3	70
	Sales growth rate + operating margin (points)	30.2	26.0	20.7	32.6	29.9	40 or more
Financial KPIs	ROE (%)	24.6	23.5	23.6	21.1	18.3	20 or more
	Dividend (¥)	7.5	9.0	11.0	13.0	15.0	15 or more

Net Sales

The Group has set a target of reaching a target range of ¥18.0 to ¥22.0 billion in the fiscal year ended June 30, 2023. This was based on the assumption that sales growth would remain at an average growth rate of around 10% achieved in the fiscal year prior to the period of the new medium-term plan. In the fiscal year ended June 30, 2023, we achieved steady growth in all three businesses: Group Governance, Digital Transformation, and Outsourcing, as we proactively responded to growing investment needs among Japanese companies, our customers, to maintain and strengthen competitiveness by upgrading corporate management and activities using data and digital technology, which is becoming a medium- to long-term trend. Sales growth was achieved in every segment, and overall consolidated net sales totaling ¥21,424 million. This represented a 14.5% increase over the previous fiscal year, reaching the target range set for the previous medium-term plan period and realizing sales growth close to the upper limit.

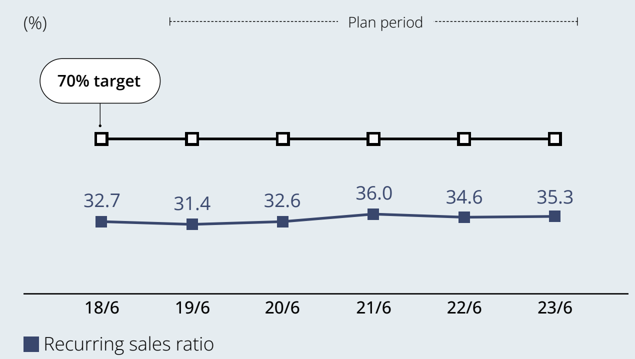


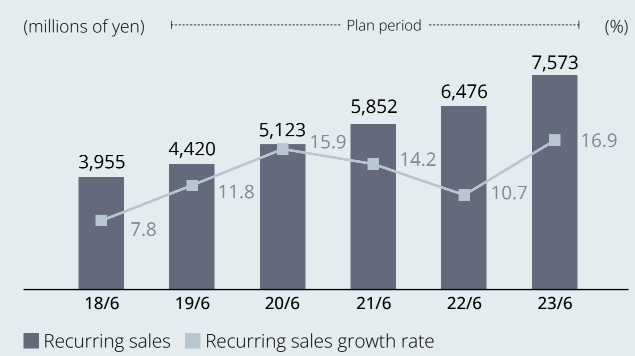
The Company has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) from the beginning of the fiscal year ended June 2022, so the figures for the fiscal year ended June 2022 are the figures after the application of the new Accounting Standard.
Please be aware of that there is an impact from the change in accounting standard when comparing with figures from the fiscal year ended June 2021 and earlier.

Recurring Sales Ratio

With the aim of transforming the business model during the previous medium-term plan, the Group has set a target of increasing the recurring sales ratio, (sales that continuously are booked every fiscal year, such as software maintenance fees) to 70% of total sales. The recurring sales ratio in the fiscal year ended June 30, 2023 was 35.3%, up 0.7 percentage points from the fiscal year ended June 30, 2022. While recurring sales grew steadily, including growth in the Outsourcing Business and cloud sales in the Group Governance Business, each business responded to growth opportunities against the backdrop of robust demand, and non-recurring sales, particularly in the Digital Transformation Business, which contributed to overall growth. This was one factor why the recurring sales ratio itself fell short of the target.

Meanwhile, total recurring sales grew 16.9% from the previous fiscal consolidated year. While there are some points to reflect on regarding the appropriateness of the target, this reflects the result of each business segment of the Group going after growth opportunities and responding appropriately to customer needs against the backdrop of increasing needs for management streamlining and investments in system infrastructure. This was symbolized by the acceleration of digital transformation during the previous medium-term plan period. As a result, we do not necessarily believe this was a bad outcome.



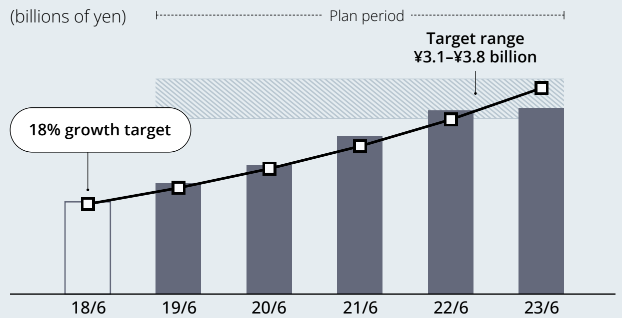


Operating Profit

The Group set a target of reaching a target range of ¥3.1 to ¥3.8 billion in the previous fiscal year ended June 30, 2023 on the basis of an average growth rate of 18% during the period of the medium-term management plan.

In the fiscal year ended June 30, 2023, as the Group as a whole worked to prepare for the start of the new medium-term management plan, there were increases in fixed personnel expenses due to improved remuneration and an increase in headcount following efforts to bolster recruitment measures to strengthen competitiveness as we looked to secure human resources. On the back of the group reorganization, we had cost increases due to rebranding, as well as product rationalization and improvement of the development environment at operating companies. There was also an increase in outsourced processing expenses in response to increased demand from customers. Despite these and other factors, we recorded operating profit of ¥3,289 million.

As described above, operating profit was up 1.3% year-on-year, a slight increase from previous years, due to aggressive spending to realize future growth. However, we were able to achieve the target range level for the previous medium-term plan period for operating profit as well as sales.



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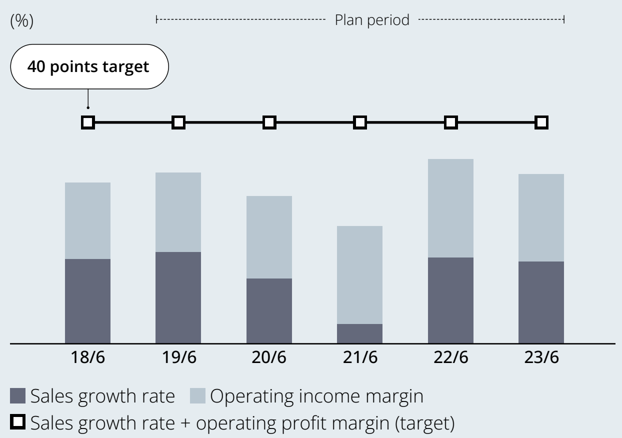
Sales Growth Rate + Operating Profit Margin (GPP)

In order to strike a balance between improving profitability and expanding scale, the previous medium-term management plan incorporates a metric which looks at the combined sales growth rate and operating profit margin. We set a goal to achieve a ratio of 40 points or more, which is high even compared to global peers.

In the fiscal year ended June 30, 2023, each segment continued to experience solid demand growth and achieved double-digit revenue growth with a sales growth rate of 14.5%. However, the operating profit margin deteriorated by 2.0 points to 15.4% due to aggressive spending to realize future growth. As a result, the GPP was 29.9 points.

This was a 2.7-point drop from the previous fiscal year, meaning GPP came up short of the target level for the previous medium-term plan period. We recognize the need to work toward further acceleration in sales growth or improved profitability.



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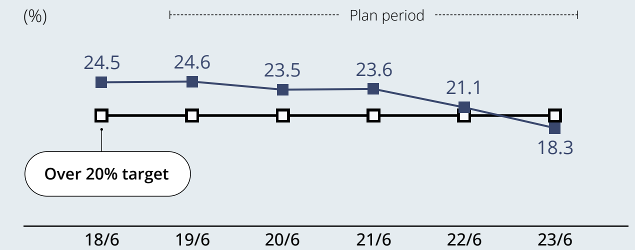
ROE

In order to realize our previous medium-term management plan, we recognize that it is necessary both to grow our three existing businesses, as well as engage in investment activities, such as internal investment or external growth. As a guideline for investment activities, we set a target of maintaining ROE of 20% or more on an ongoing basis.

ROE for the fiscal year ended June 30, 2023 was 18.3%, down 2.8 percentage points from the previous fiscal year, falling short of the 20% target. This was due to the impact of aggressive temporary spending to realize future growth during the fiscal year ended June 30, 2023, which worked to lower profit growth compared to previous years.

On the other hand, the five-year average was above the 20% level due to the stable maintenance at the 20% level during the plan period except for the final year.

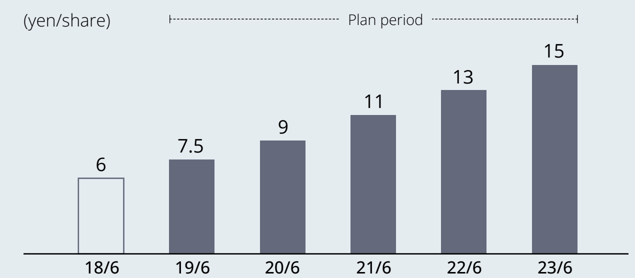


Dividends

The Group regards dividends as an important part of its shareholder return policy and focuses on indicators such as the ratio of dividends to net assets. We aim to maintain and increase the amount of dividends in a stable manner without any excessive influence from the business performance of each fiscal year. The Company set out to achieve operating results and manage its balance sheet in order to pay a dividend of ¥15 per share for the fiscal year ended June 30, 2023.

In the fiscal year ended June 30, 2023, the Company increased the dividend by ¥2 per share to ¥15 per share, in line with its basic policy of continuous stable dividends. The ratio of dividends to net assets is approximately 4.9%, well above the average for companies listed on the Tokyo Stock Exchange.

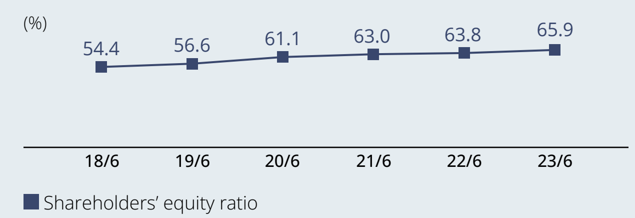
The target during the period of the current medium-term plan is expected to be achieved in the fiscal year ended June 30, 2023, the final year of the plan.



Free Cash Flow and Shareholders' Equity Ratio

Free cash flow for the year ended June 30, 2023 amounted to ¥1,379 million due to a significant increase in investments due to the purchase of software source code (acquisition of intangible assets) and office expansion (acquisition of property, plant and equipment and increase in compensation for garnishments), despite an increase in net profit attributable to parent company shareholders.

Net assets after payment of dividends from retained earnings of ¥489 million were ¥12,328 million. As a result, the shareholders' equity ratio improved 2.1 percentage points to 65.9% from 63.8% at the end of the previous fiscal year. We believe that the company has no interest-bearing debt and maintains a very stable financial balance.



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