BIPROGY Inc.
Earnings Announcement
for the Fiscal Year Ending March 2023
held on April 28, 2023

Principal Questions and Answers

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

[Questioner A]

Q : You referred to your users shifting to OptBAE from the service that you provided, and this shift put pressure on outsourcing profits of Q4 (Jan to Mar). How long do you expect this situation to continue?

A : OptBAE itself has been generating a reasonable amount of profit. However, it is not possible to quickly reduce costs of the service provided before shifting to OptBAE. This is the reason why the outsourcing profit is slightly impacted. We will review our maintenance/support and operation arrangements over the course of this one-year period (the fiscal year ending March in 2024). Thus, we expect an improvement of the profitability of OptBAE and the previous service before the transfer to OptBAE from this fiscal year to the next fiscal year.

Q : The fiscal year ending March 2024 is the final fiscal year of the Management Policies. Your performance forecast this time for the fiscal year ending March 2024 shows larger revenue than your target revenue in the Management Policies. And, you forecast smaller adjusted operating profit in light of your target adjusted operating margin therein indicated. May I ask for your evaluations?

A : DX projects have been significantly strong. Revenue of the fiscal year ended March 2023 has already been at the level close to the target figure (¥340.0 billion) as indicated in the Management Policies. Thus, we forecast revenue for the fiscal year ending March 2024 in excess of the target figure.

We set a target of adjusted operating margin of 10% or more in our Management Policies. We have been dealing with various types of costs in our recent situations. Thus, we internally discussed if we should squeeze costs in order to achieve the target, or, if we absorb costs and furthermore make investments proactively conducive to future growth. Finally, we decided that at this point in time we should not slow the pace of investments in human resources for future growth and enabling structural transformation conducive to service businesses with our next management policies kept in mind. Therefore, we indicated a figure slightly lower than the adjusted operation margin targeted in the Management Policies.

Needless to say, it is our fervent wish to enable a double-digit operating margin. We would like to take on the challenge. However, we thought that it is not advisable to force ourselves to achieve the target in a short period of time. We believe that it is necessary for us to make investments for our next stage. Thus, we set this adjusted operating margin as our forecast.

[Questioner B]

Q : May I ask about the background behind a high growth rate of outsourcing revenue for Q4?

A : The main reason for the outsourcing revenue increase in Q4 is an increase of ¥1.6 billion raised from dealing in a cloud service provided by a company not of us. The profitability in dealing in the cloud service is small. Therefore, gross margin is smaller in light of YoY (Year over Year)/QoQ (Quarter over Quarter) comparison. We will add value on the service and provide the service as managed services in the future. At this point in time, however, we have not been there.

Q : We think that your forecast of outsourcing revenue growth rate for the fiscal year ending March 2024 is higher compared to the past. May I ask what you are expecting?

A : We have been working on an increase in the outsourcing revenue since we launched the current Management Policies. Cloud services have been continuously strong. We have been receiving a very large number of inquiries. We would like to see this business area take the lead in increasing revenue. We have continuously promoted service business more than before. This is a service that earns revenue depending upon an increase in customers as participants/users. We will continuously increase the business based upon promotion efforts. We plan to increase outsourcing revenue based upon the two businesses.

Q : It seems that you found more strength in the cloud service by a company not of you in this period, than you had expected. May I ask if there are any changes?

A : We have been implementing measures for promotion since the previous fiscal year. We have seen strong demands for replacing with products/solutions composed of our telework-related solutions. We would like to use the products as sales hook conducive to introducing and monetizing our services as well as accelerating DX at customers.

Q : It seems that expenses of your forecast for the fiscal year ending March 2024 are more than your past target assumption indicated in the Management Policies. May I ask which specific items of costs you expect to increase such as SG&A costs?

A : We foresee a slight increase in the personnel costs mainly by enabling base-pay increases for employees. Furthermore, we would like to increase our R&D costs in light of our medium-to long-term growth in the future. In addition, costs related to renewing our internal core-systems were slightly postponed into this period from the previous fiscal year. This pushes up the IT-related costs for this period according to our plan.

[Questioner C]

Q : Do I correctly understand that you suffered double costs incurred from users having shifted to OptBAE in Q3 (Oct-Dec), and the costs will not be reduced for the time being? Or, did you have new double costs due to other users shifting in Q4 as well?

A : There are periods where a small amount of depreciation costs remained about the previous service before shifting to OptBAE. Also, there are customers who have not shifted to OptBAE. Therefore, we provide two services, the previous service and OptBAE. In other words, we have operating costs for the two services. The costs will decrease as customers shift to OptBAE. However, we would like to get rid of the double costs structure as soon as possible by promoting standardization and communalization of operational services.

Q : I saw a significant increase in the Outsourcing orders in Q4. May I ask for specifics?

A : We posted multiple large-scale projects of ¥3.0 billion or more. These are long-term services for financial institutions, and therefore these do not make immediate contribution to earnings. The projects contents contain existing projects and new projects, both, such as projects of renewing to OptBAE as well as new orders for sales hook product (cloud service of a company, not of us) as I referred to earlier. We received many orders for large-scale projects in the same quarter of the previous fiscal year. We can beat our previous order record in this quarter.

Q : I would like to know your prospects of obtaining new users and demands for BankVision and OptBAE. It seems that opening platform systems at financial institutions is gaining momentum in the industry. You have been operating open applications and platforms for BankVision. Furthermore, you are ahead in the public-cloud services, through BankVision on Azure. Do you feel wind at your back?

A : I think that doubtlessly the trend will be to open core-banking systems and optimize costs for regional financial institutions. We are providing environments where financial institutions can connect to regional companies and customers, rather than only looking to cost reductions through developing open or cloud systems. Also, we provide services which are not of complete joint-use type. In other words, we entice financial institutions to take part in developments and acquire the abilities to create new financial services by themselves through working on the developments together. I foresee that financial institutions will be hands-on in the future in creating systems to enable products and services, rather than leaving all to external workforces. Financial institutions will launch extremely speedily internet banking and smartphone applications. I think that our sails are full as this will be desired by more customers in the future. At the same time, this is a key decision for financial institutions. We do not expect any of them to make such a decision shortly. We would like to work with customers who appreciate our strengths and wish to work with us in order to contribute to developments of regions, and we are keen on talking to such customers.

[Questioner D]

Q : I would like to have your comments on your stock prices. Although your performance forecasts for the fiscal year ending March 2024 have not reached the target figures described in the Management Policies, you have steadily continued to increase revenue and profit in and after the fiscal year ended March 2022, the first fiscal year. On the other hand, your stock prices have remained almost flat. This can mean that your relative evaluations in the stock market are lowered. May I ask for your thoughts as CEO about your stock prices?

A : Stocks are evaluated and priced in the stock market, not by us. What we do is to make our efforts to have our corporate value appreciated.

First of all, our performance is not unfavorable as you mentioned. We would like to show our future explicit plans on the basis of the performance that can meet expectations about our future growth.

Also, we must consider shareholder return measures conducive to having our shareholders feel assured of our future growth. For the past few years, we have secured cash sufficiently. We would like to allocate cash pursuant to a payout ratio of 40% as indicated in the current Management Policies. We will proactively use the rest of the cash for investments, etc. We will deliberate upon a capital allocation in light of investments for the future and shareholder returns, and will present it to our shareholders for their approval.