

**BIPROGY Inc.**  
**Earnings Announcement**  
**for the First Quarter of the Fiscal Year Ending March 2024**  
**held on August 1, 2023**

**Principal Questions and Answers**

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

[Questioner A]

Q : The gross profit and profit margin of Outsourcing declined compared with the same quarter (Q1) of the previous fiscal year. Also, the numbers decreased from the previous quarter (Q4) of the fiscal year ended March 2023. May I ask for reasons?

A : The Outsourcing revenue in Q1 included revenues (¥2.1 billion) from selling cloud services of other companies. This is a factor pushing down the Outsourcing profit margin. When we look at the profit margin from the viewpoint of excluding the factor, the Service-based-type (business creation-type) outsourcing and the Corporate DX-type outsourcing continue to be strong and indicate significantly high-profit margins, in comparison with an accumulation of small-sized projects of entrusted operation-type outsourcing slightly dampening the profit margin.

Q : May I ask how much you invested in strengthening the OptBAE functions? Will the cost continue to be incurred in Q2 and thereafter?

A : I would like you to think of the amount being of low one-digit hundred million yen. We will implement enhancements of the functions continuously in the future. We are now attempting to optimize the maintenance and operation part. Although we do not know how our optimization attempts will prove effective in the current fiscal year, we expect that the situation will be improved in and after the next fiscal year.

OptBAE now serves well 11 financial institutions. Also, the service will begin at an other customer in the future. We see this as a business opportunity to enhance the functions. Please note that we will not make a big temporary investment in the functional improvements. Rather, we are preparing ourselves for utilizing human resources every month in order to provide high-quality services. Thus, we decided to make investments in order to further obtain customers.

Q : May I ask how the Outsourcing gross profit in Q1 moved in light of the full-year forecast?

A : We will continue to make investments in order to enhance the OptBAE functions in the fiscal year. We expect that we can improve the profit in the next fiscal year as a result of optimizing the maintenance and operations and increasing more customers. We aim to obtain new customers by releasing competitive services. We think that the entire outsourcing business including situations in the pipeline moves as planned at this point in time.

Q : May I ask what enabled the strength of the System Services orders in Q1? On the other hand, there is a slight decrease in the gross profit margin. May I ask if it is likely to decrease continuously in the future?

A : Orders from manufacturers and financial institutions led the increase in the System Services order amount.

We do not think that there is any decrease in the profitability of System Services. We remember that there were highly profitable projects in the first quarter of the previous fiscal year. Thus, the System Services profit margin seems slightly smaller on a year-over-year basis.

[Questioner B]

Q : May I ask for your thoughts about Q1 results in light of your internal expectations?

A : We are pleased to find that we delivered a pretty much strong revenue compared with the annual plan. We feel good about the results including the situations in the pipeline. We are off to a good start in light of profits beating our internal plan as well. We will make proactively investments in the fiscal year with an eye on receiving orders. Furthermore, we believe that our workforce is our supreme treasure. Thus, we would like to think about our full-year forecast by taking into consideration an increase in personnel costs to enable investments in the employees.

Q : If you post revenue more than expected, are there any possibilities that you will increase investments and other costs as well?

A : We do not have a model to allow an unexpected increase in services development (R&D) costs, as we develop services as planned. We will have a predictable increase in costs from our placing orders and purchasing in accordance with an increase in revenue, though. We do not add up costs only because we have an increase in revenue.

Q : We see an inbound tourism coming back recently. What do you think about the situation of your QR code payment business?

A : The QR code payment business is stronger compared with the same period of the previous fiscal year. The company conducting the QR code business is our affiliated company accounted for using the equity method. Thus, the company posted an approx. ¥0.1 billion increase in the share of profit of investments accounted for using equity method. We do not have strong returns of Chinese visitors as expected, and thus we do not see a good recovery of the Chinese QR code payment business as yet. However, we are beginning to see signs of future recovery, and so we have expectations.

[Questioner C]

Q : May I ask if the increase in System Services order amount is only attributable to an increase

in orders from manufacturers and financial institutions? I would like to know how your customers in the business sectors are coming back after they were impacted by the COVID-19 pandemic?

A : We referred to the manufacturing industry and the financial industry where we see a significant increase in the order amount. Generally speaking, situations are fundamentally better and show good signs in light of orders placed from other industries. The travel industry and the distribution industry were impacted by the COVID-19 pandemic. However, the industries now indicate an uptick in the movements of people and the economy. Thus, our activities to receive orders from the industries are in good shape.

Q : You expected that you would increase SG&A costs by ¥2.1 billion in the fiscal year. SG&A costs increased already by ¥1.1 billion in Q1. May I ask how you have moved in light of your full-year SG&A costs forecast? Do you think that your SG&A costs will exceed the full-year forecast?

A : Personnel costs took the lead in increasing the SG&A costs in Q1. We had good business results in Q1. Thus, we have born slightly heavier burdens of performance-linked bonus provision compared with the first quarter of the previous fiscal year. We think that the provision will come closer to the forecast each quarter. Thus, we think that we will find the provision as planned.

[Questioner D]

Q : Even if you increase investments for functional enhancements more than expected, do you believe that you can achieve your Outsourcing profit plan that you announced at the beginning of the fiscal year?

A : We have two factors to enable us to think that we can achieve our forecast as we mentioned the beginning of the fiscal year. One, we launched managed services by using as our hook the opportunity of receiving orders for cloud services such as Microsoft 365 for telecommuting. Cloud services are of small profitability. We intend to strengthen the profitability by adding new services on the cloud services. Two, we have a pipeline that contains projects likely to be profitable as we expect. The pipeline is not at the stage of certainty, and thus, we need endeavors in order to achieve our forecast of Outsourcing profit. However, we do not intend to surrender at this point in time. We will continue our initiative. At the same time, we are thinking about the possibilities of System Services and other businesses compensating for a worst-case situation from the viewpoint of the entire business performance.

Q : May I ask what caused an increase in the Outsourcing order amount in Q1?

A : We could receive continuously orders for our services that we have provided conventionally. Also, our businesses related to telecommuting such as Microsoft 365 have been strong. We think that the key point is how to develop and make the businesses profitable. We did not

post large-scale projects in Q1 of the fiscal year. Rather, we have had an accumulation of projects in the range of around ¥1.0 billion.

[Questioner E]

Q : You posted ¥2.1 billion Outsourcing revenue in the category of the cloud services of other companies for Q1 of the fiscal year. May I ask if you did not post revenue in this category in the first quarter of the previous fiscal year? Or, did you post the revenue as software in Q1 of the previous fiscal year?

A : Almost the same amount was posted in the category of software segment in Q1 of the previous fiscal year. We have shifted our direction to adding value on other companies' cloud services and providing as a managed service. Thus, we have revised the categorization of business segment. At this point in time, selling other companies' cloud services is one of the factors to lower the Outsourcing profitability. If the managed services expand in the future, this category will be more profitable.

Q : The hardware products revenue increased in Q1. The profitability is improved as well. May I ask why and if the improvements will be sustained?

A : We posted sales related to network equipment and PCs in Q1 of the fiscal year. The orders remaining at the end of the previous fiscal year have been realized as revenue. We got rid of delays in delivering network equipment. We are now able to deliver products and post revenue as planned. Partly due to strong DX investments and partly due to the pipeline situations of network equipment, we expect that we can continue to see the profitability at the same level in the future.

Q : I would like to know specifically which OptBAE functions will be enhanced.

A : OptBAE is a core-banking service. We will connect various functions through the use of APIs. At this point in time, up-stream consultants are identifying business needs and working on plans of development. Thus, we are not at the stage of full development as yet. We would like to share with you contents of the functions when we have the project settled slightly more into shape. This is a strategic product. Thus, we would prefer to shy away from details. Your kind understanding would be appreciated. We will deliver an attractive service and have new users in order to raise the entire level of our Outsourcing business.

[Questioner F]

Q : You seem that you made a consolidated subsidiary in Singapore in the fiscal year. May I ask if this will impact the situations of System Services orders in the future?

A : The company operates businesses based upon providing infrastructure-related services. Thus, it does not make significant impacts on our revenue. We aim to bring together companies such as this company into a group in the future and form a network of companies that can

provide services in the Asian region. Although the company may be small, we would like to bring in various companies and multiply the capabilities in order to operate huge businesses. The company's annual revenue is almost of two-digit hundred million yen. Due to this company in Singapore acquired as our subsidiary on a consolidated basis, we will have a handhold for proactively deploying business in the Asian region.

We can safely accept the strength of System Services orders in Q1 at face value. There were no impacts from making the consolidated subsidiary.

(Note)

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