Results of Operations for the First Half of the Fiscal Year Ending August 31, 2021

April 2021

株式会社 セラク
SERAKU Co., Ltd.

I. Company Overview

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Company Overview

Management Policy: **Create and foster businesses through IT education/training services and contribute to the advancement of society.**

Company name:	SERAKU Co., Ltd.
Established:	December 1987
Representative:	Tatsumi Miyazaki, Representative Director
Capital:	299,495,500 yen (as of March 31, 2021)
Employees:	2,495 on a consolidated basis (as of February 28, 2021)
Location:	Nishishinjuku Prime Square Bldg. 7-5-25 Nishishinjuku, Shinjuku-ku, Tokyo
Group companies:	P's Engineering (wholly owned subsidiary) SERAKU ECA (wholly owned subsidiary)
Listed exchange:	Tokyo Stock Exchange, First Section (stock code 6199) Listed on November 20, 2017

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Our Business Model

Based on a business model of creating IT professionals through education that can respond to new technologies, we aim to achieve higher growth by building a continuously cumulative profit structure and making investments in growing business domains

IT System Construction and Operation

System integration (SI) domain

- Construction/operation of IT systems (long-term projects)
- Industry-specific IT support (for substantial IT needs)

Digital transformation (DX) domain

- Cloud domain, customer success domain (DX domain for the emergence and growth of companies' needs)

Unified three-way growth (recruiting, training, operations) in step with changes in technology trends and the nature of companies' requirements

Sharing of personnel and technology resources

Network Services

Agricultural IT domain

Midori Cloud みどりクラウド

Digital healthcare domain

Vital Program

Currently working on new services

Focusing investments on social issues with the best prospects for growth

Use our own education programs to create experts in new technology domains where markets are growing and there is a shortage of people

Education-based IT professional creation

- Internal recruiting and training allow quickly creating large numbers of IT engineers
- Large investments when market conditions are favorable produces medium to long-term sales growth
- Limit recruiting when market conditions are unfavorable in order to place priority on earnings

Recruiting skill × **Training skill** × **Sales skill**

We have trained more than 3,000 engineers and have operational know-how obtained from participation in highly sophisticated projects

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Business Segments and Service Domain

- Long-term, steady growth and growing size of the System Integration segment, along with substantial added value and fast growth of the Digital Transformation segment

Digital Transformation (DX)

Focusing on three sectors with the most growth potential as digitalization continues to advance, aiming for social reform and fast growth

Cloud & Solutions Business

- Infrastructure solutions
- IoT cloud support center
- Cybersecurity

Customer Success Solutions Business

- Introduction and support services for operation of Salesforce.com
- Design of marketing activities
- Data science

Midori Cloud Business

Midori Cloud みどりクラウド

- Agricultural IoT service (Midori Cloud)
- Livestock IoT service (Farm Cloud)
- Solutions for the agriculture and fisheries sector

System Integration (SI)

Two sources of growth: Operation of existing IT systems, a business with long-term steady growth, and technology support for industries with substantial IT needs

- Financial/social systems
- Information communication systems
- Enterprise systems
- Service management
- Quality assurance
- Operation of IT infrastructures
- Operation of IT systems
- Yokohama branch
- Nagoya branch
- Osaka branch
- Fukuoka branch

Mechanical Design and Engineering

P's Engineering ピーズ エンジニアリング

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DX: Cloud & Solutions Business

- Total support, including design, construction, operation, surveillance and security, for establishing a cloud ICT environment for companies
- The need for these services is growing fast due to COVID-19; growing by shifting engineers to the DX domain and strengthening alliances

IoT cloud support center

24-hour Cloud infrastructure and IoT services every day

- 24-hour/365-day operation
- Facilities with outstanding security and resilience to disasters
- Managed service provider (MSP) for IoT systems
- Business alliances
- Automation of system operations and usage of AI
- Security operations center

Cybersecurity

Vulnerability diagnosis service, support from installation to operation of security products

- Diagnosis service to identify vulnerabilities
- SOC operation support
  Assistance for assembling a framework (SOC engineer on site)
- Installation of security products
  Endpoint/UTM/CASB/VDI/others

Soliton, Microsoft, SKYSEA Client View, TANIUM, FORTINET, CISCO, TREND MICRO, paloalto NETWORKS

*Planning on adding more security products (alliances)

Cloud infrasolutions

A broad spectrum of support for creating a cloud corporate ICT environment

- Design and construction services
- Server
  Linux／Windows／UNIX
- Network infrastructures
- Virtualization/Hyperconverged infrastructure (HCI)
- Cloud

Microsoft Azure, Google Cloud Platform, aws

- Kitting

Plan to complete the training of 200 certified Microsoft engineers by August 2021

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DX: Customer Success Solutions Business

Specializing in the Salesforce platform, which has a high market share in the SFA/CRM domain and strengthening the shift from engineers in the SI domain to those in the DX domain

Salesforce.com utilization support services

Already assisting more than 250 companies due to rapid market growth
Providing utilization support both on site and remotely

- Utilization assessment program
- Utilization support service
- Salesforce manager support service

Design of marketing activities

- Salesforce Pardot/Marketing Cloud operation
- Digital marketing support using a company's customer data

Data science

- Tableau operation using data science engineers
- Data science and business intelligence support centered on customer data

Expand services in line with the addition of Salesforce services, such as Salesforce Anywhere (collaboration tool) and Slack (business collaboration)

In April 2021, SERAKU and NTT Data launched a business reform support service that begins with support for using Salesforce

NTT DATA × SERAKU

- NTT Data, which is the largest partner of Salesforce.com in Japan, handles the sale of products, consulting and other activities
- SERAKU plans to train 500 Salesforce engineers over the next three years. These experts will provide primarily on-site Salesforce utilization support to NTT Data's customers
- The goal of this close relationship with NTT Data is to become the leader in Japan for business reform support linked to this utilization assistance

Plan to complete the training of 170 certified Salesforce engineers by August 2021 (ranking among the most in Japan) and to have 500 of these engineers within three years

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DX: Midori Cloud Business

A platform to support agricultural production (IoT device x Cloud service × Data science)

A platform for agriculture

みどりクラウド Midori Cloud

Used at more than **2,400** locations
In use in all 47 Japanese prefectures

Use agricultural production data for data-driven agriculture

Environmental measurement and records

IoT devices measure environmental parameters at an agricultural operation, store data in the cloud and generate notices of abnormalities.

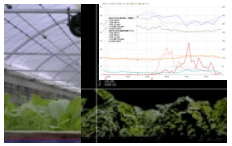
Production plans and work records

Use PCs and smartphones for production plans and records of work performed. Also facilitates GAP certification and implementation.

Automatic environmental control

Windows, temperature control, ventilation and other items are controlled automatically or remotely via an app.

Data comparisons and analysis



Data are analyzed and compared with data at other locations and AI and machine learning are used to improve production.

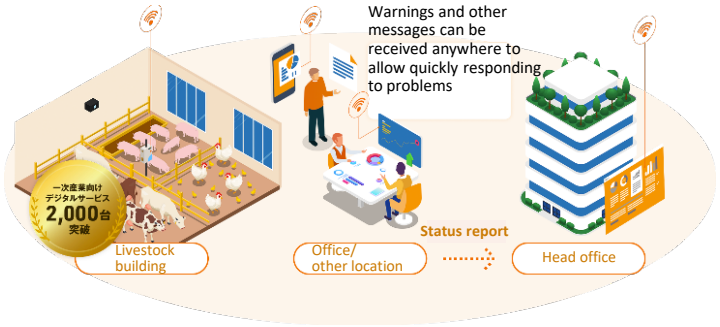
A platform for pig and chicken farming

ファームクラウド Farm Cloud

Used at **73** locations

Boosts productivity through the visualization of buildings and equipment for pigs and chickens

Centralized oversight of several buildings raises shipment volumes and earnings



Agriculture and Fisheries solutions for companies and the public sector

Primary industry DX by using agricultural production support platforms and SERAKU technologies

Agricultural production support platforms

みどりクラウド Midori Cloud

ファームクラウド Farm Cloud

×

SERAKU technologies

- AI/machine learning
- UI/UX optimization
- System/applications
- Communication/network
- Hardware/IoT

Digitalization	Boosts productivity	Improves management
• Sensing • IoT device installation • Data collection • Use of smart devices to record data	• BI tools for visualization • Development of UI/UX • AI for automation/labor-saving measures • Control by using the IoT	• Optimization of equipment and animal feed • Support for receiving certifications • Higher efficiency • Sales channel optimization

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DX: Midori Cloud Business

Examples of Agriculture and Fisheries solutions

Asparagus production using smart agriculture technology

The Smart Agriculture Demonstration Project of Japan's Ministry of Agriculture, Forestry and Fisheries (Minami-Shimabara, Nagasaki)

Smart agriculture provides the visualization of temperature and water supervision for the stability of production.
This also creates a production system that overcomes the harvesting and shipment bottlenecks due to a labor shortage. This project will be used as the guideline for asparagus production that uses smart agriculture technology.
Asparagus farms are a sector that is lagging behind regarding the use of data. This project is aimed at revolutionizing the asparagus growing business.

Equipment management system using Midori Note

Solutions for major forestry companies

At businesses nationwide the grow tree seedlings, there has been a need for the centralized oversight of production progress and the use of equipment at multiple locations.
SERAKU developed equipment, inventory and other management functions for inclusion in Midori Note to provide this centralized supervision.

These additional functions were developed quickly because Midori Note already provided a standardized format for production management.

An IoT chicken cage system using Farm Cloud

A solution for a large chicken business

Cages used for raising chickens have sensors and control devices. Connecting these items to SERAKU's Farm Cloud transforms this cage system into an IoT system.
With Farm Cloud, monitoring and analyzing data are easy. This allows using data to improve chicken farming operations and the collection of eggs.

This technology can convert a legacy cage system into an IoT system quickly and at a low cost.

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System Integration Business

- Growth of the education-based IT professional creation business along with the consistent growth of long-term IT infrastructure/system operation relationships
- More added value by shifting experienced professionals to the DX domain and making them project managers

Operation of IT infrastructure/systems

Assign tasks that match each engineer's skill level at long-term continuous IT infrastructure and IT system operation projects

- Use education-based IT professional creation to consistently increase the number of engineers
- More than 75% of business is large-scale operation projects that require long-term continuous operation
- The number of customers and projects is increasing because of the large volume of IT needs
- More customers at locations other than Tokyo (Yokohama, Nagoya, Osaka, Fukuoka)
- Progress with workforce diversity, such as more female leaders, continuing to use people after childbirth and other major personal events, the use of teleworking to provide services, and other measures

Industry-specific IT support

Growth by giving people specialized skills for market sectors with very high demand for IT support and strengthening relationships with large system integration firms

Financial/social systems	Information communication systems
Enterprise systems	

- Train IT professionals with business knowledge in order to work in market sectors with strong demand for IT support
- Work as a subcontractor at large projects of major system integration firms and receive more orders directly as the prime vendor
- Aim for growth by using collaboration and alliances with partners

Steady growth based on the education-based IT professional creation model and the provision of greater added value by shifting people to the DX domain

- SERAKU's exclusive IT professional creation model underpins growth by using introductory lessons and then lessons using actual work environments to train people with no experience so they can be assigned to projects within two to three months
- To provide greater added value, experienced people acquire more advanced skills for DX activities, project management and other higher level jobs

Resuming recruiting activities to aim for more growth

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SERAKU's Competitive Strengths in the System Integration Business

Recruiting skill

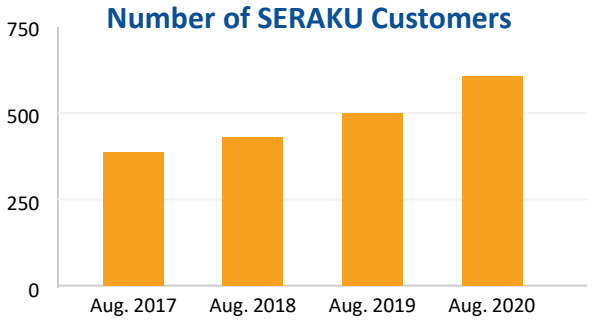
- Recruiting activities that shift people to the growing IT sector (hire people with work experience but no IT experience who have the potential to learn and advance)
- Recruiting for full-time employees targets new graduates as well as hiring people throughout the year on a nationwide scale
- Training programs and a lineup of innovative services allows SERAKU to offer attractive career opportunities; up to 2,500 applications are received every month

Training skill

- The initial training program is structured to place newly hired people in actual projects after only two to three months
- Practical training that uses the same equipment and environments as for actual projects
- The SERAKU Jonetsu University is a platform for sharing knowledge and upgrading skills

Sales skill

- Sales activities are adding more than 100 new customers every year
- A sound base for relationships with many large system integration firms
- Customers span many industries and business models that require IT services



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II. 1H FY8/21 Results of Operations

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1H FY8/21 Financial Highlights (1)

- **Sales in both the System Integration and Digital Transformation segments were generally as planned**
- **Operating profit was 62.3% higher than one year earlier**
- **Ordinary profit was higher than planned because of employment adjustment subsidies**

	1H FY8/20 results		1H FY8/21 results		
(Millions of yen)		(% to sales)		(% to sales)	(YoY change)
Net sales	6,550	-	7,268	-	**+11.0%**
Gross profit	1,560	23.8%	1,790	24.6%	**+14.8%**
Operating profit	441	6.7%	716	9.9%	**+62.3%**
Ordinary profit	446	6.8%	1,110	15.3%	**+148.9%**
Profit	284	4.3%	703	9.7%	**+147.0%**

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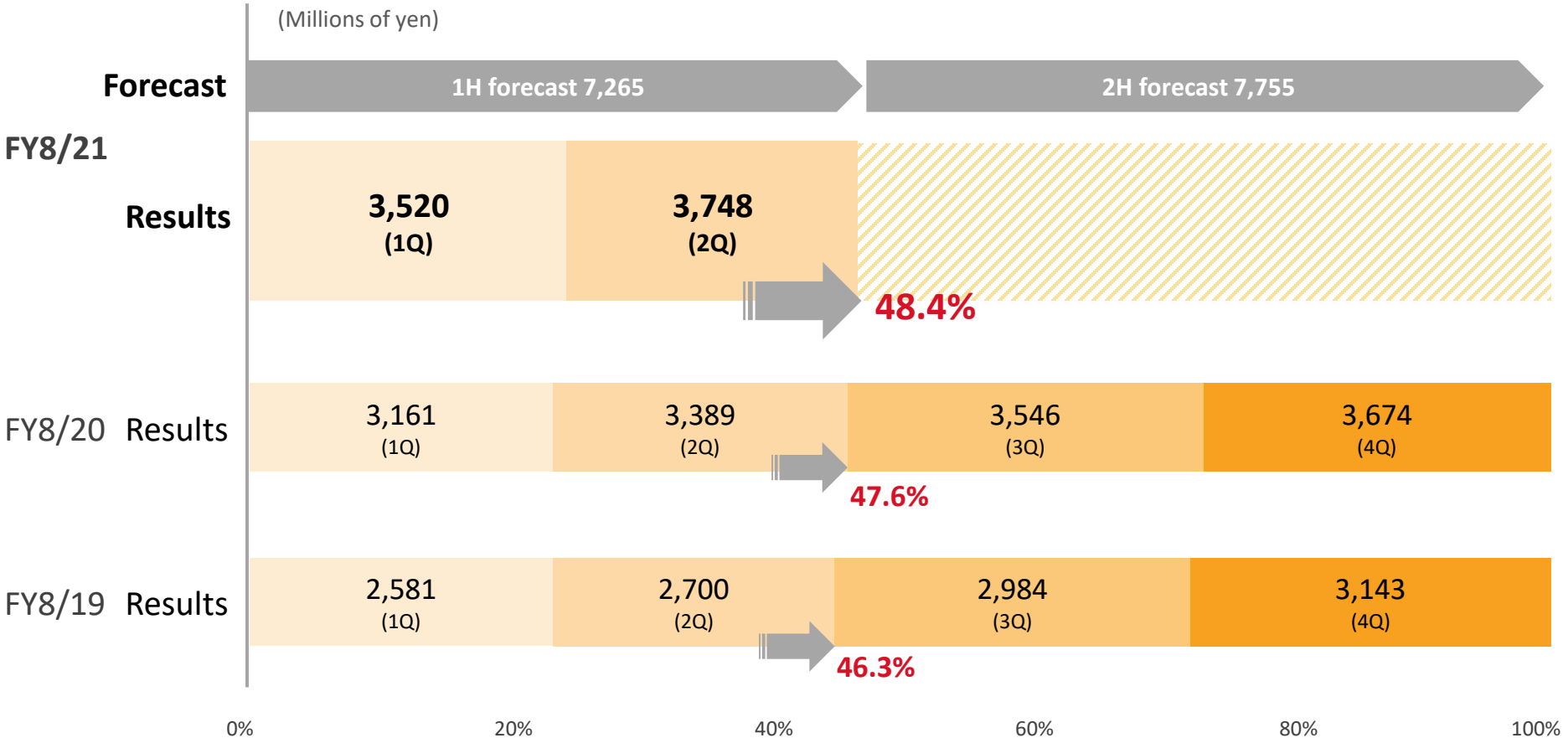
1H FY8/21 Financial Highlights (2)

- **Second half sales are usually more than half of fiscal year sales**
- **First half sales were generally as planned**
- **Sales are on track for reaching the fiscal year forecast**



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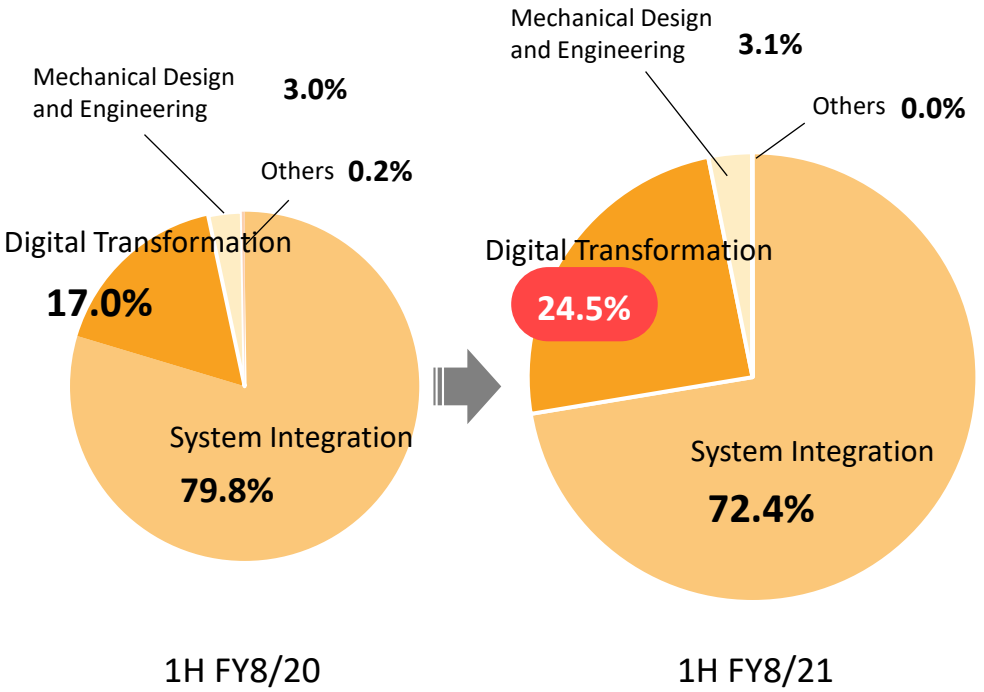
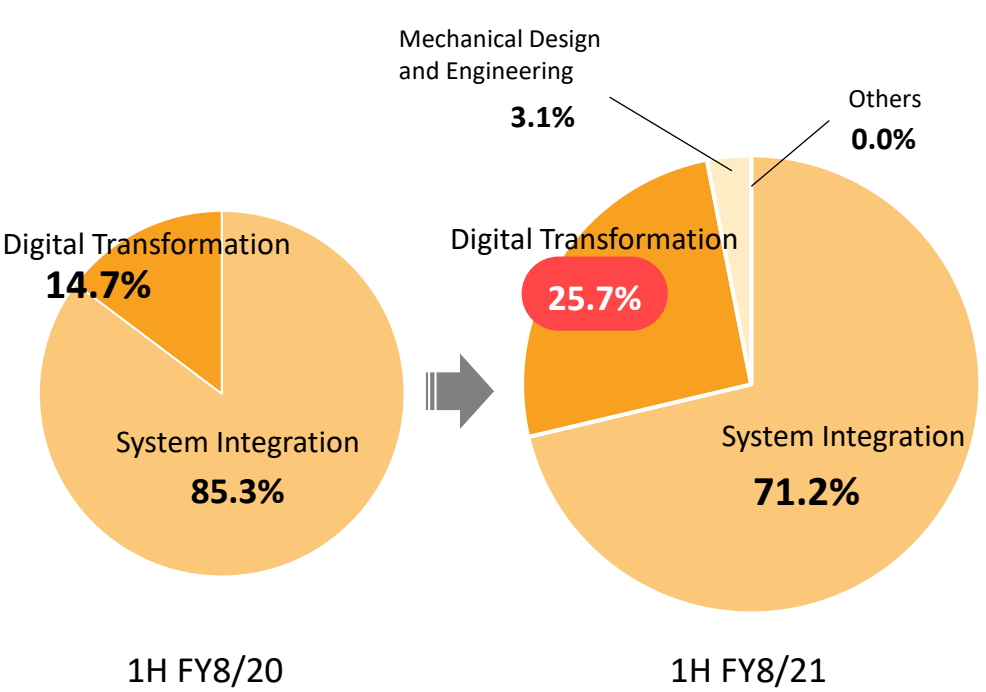
1H FY8/21 Financial Highlights (3)

- **Securing stable earnings in the System Integration segment and focusing on shifting engineers from the SI domain to the DX domain**
- **Big increase in the Digital Transformation segment pct. of sales and operating profit**
- **The Digital Transformation segment increased to 25.7% of first half operating profit**

Sales by Business Segment



Operating Profit by Business Segment



(*Excluding sales and profits of the segments that are in red)

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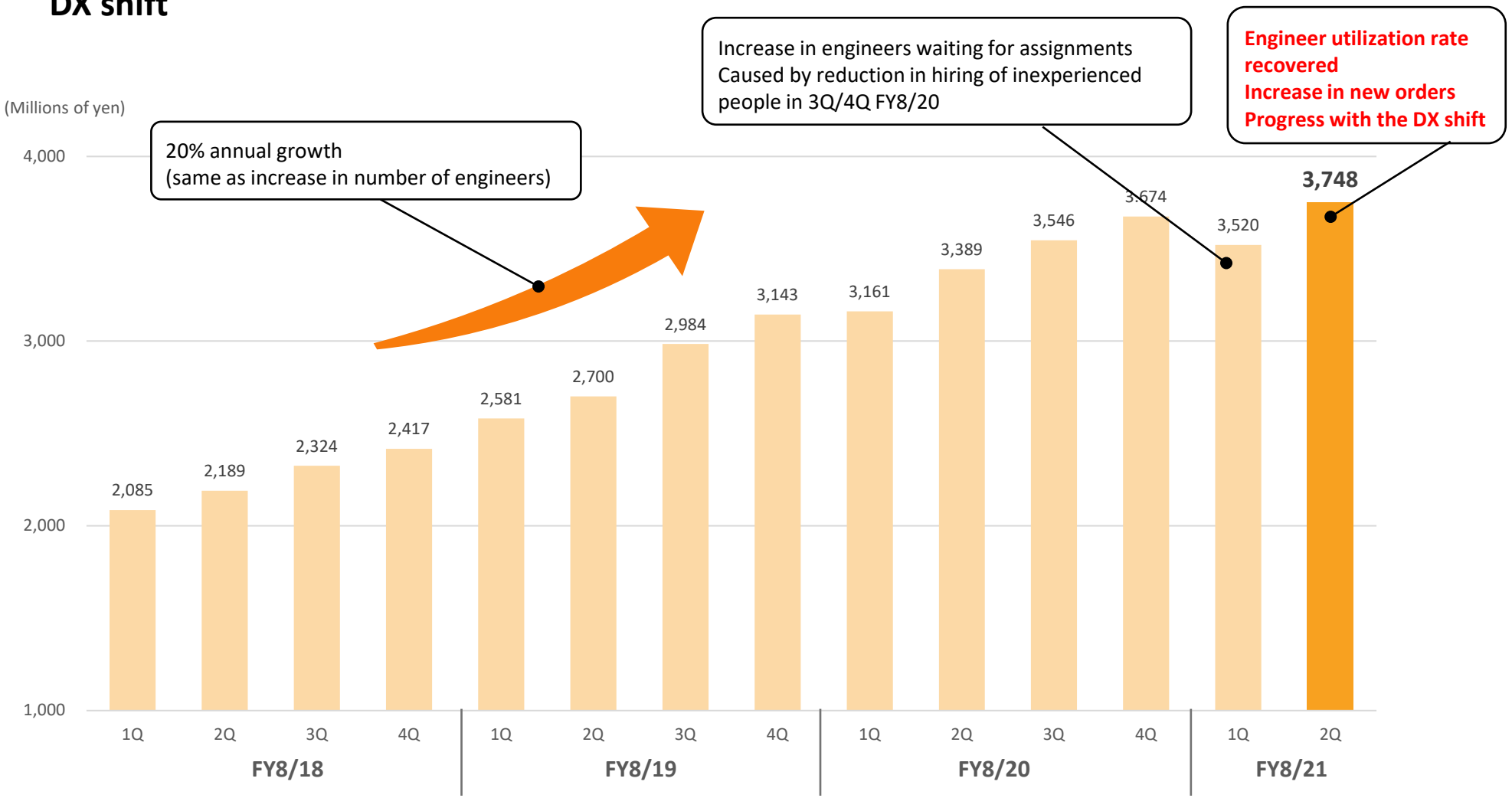
Quarterly Sales Growth

- **Sales have increased consistently from quarter to quarter**
- **Record-high 2Q FY8/21 sales due to a higher engineering staff utilization rate and the ongoing DX shift**



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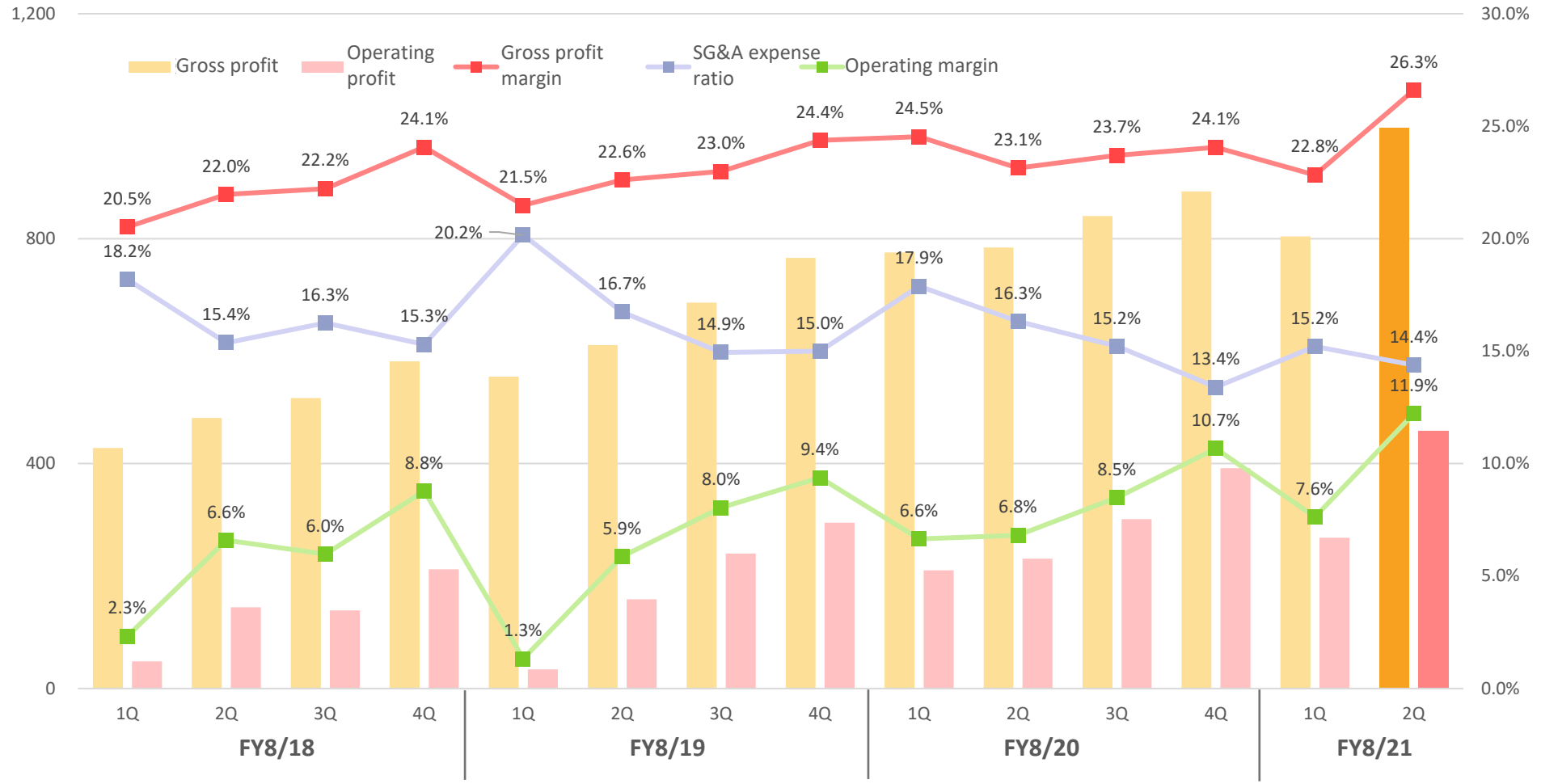
Quarterly Earnings Growth

- **Gross profit margin has remained above 20% even while making investments for growth**
- **Big increases in the gross profit margin and operating margin in 2Q FY8/21**

(Millions of yen)



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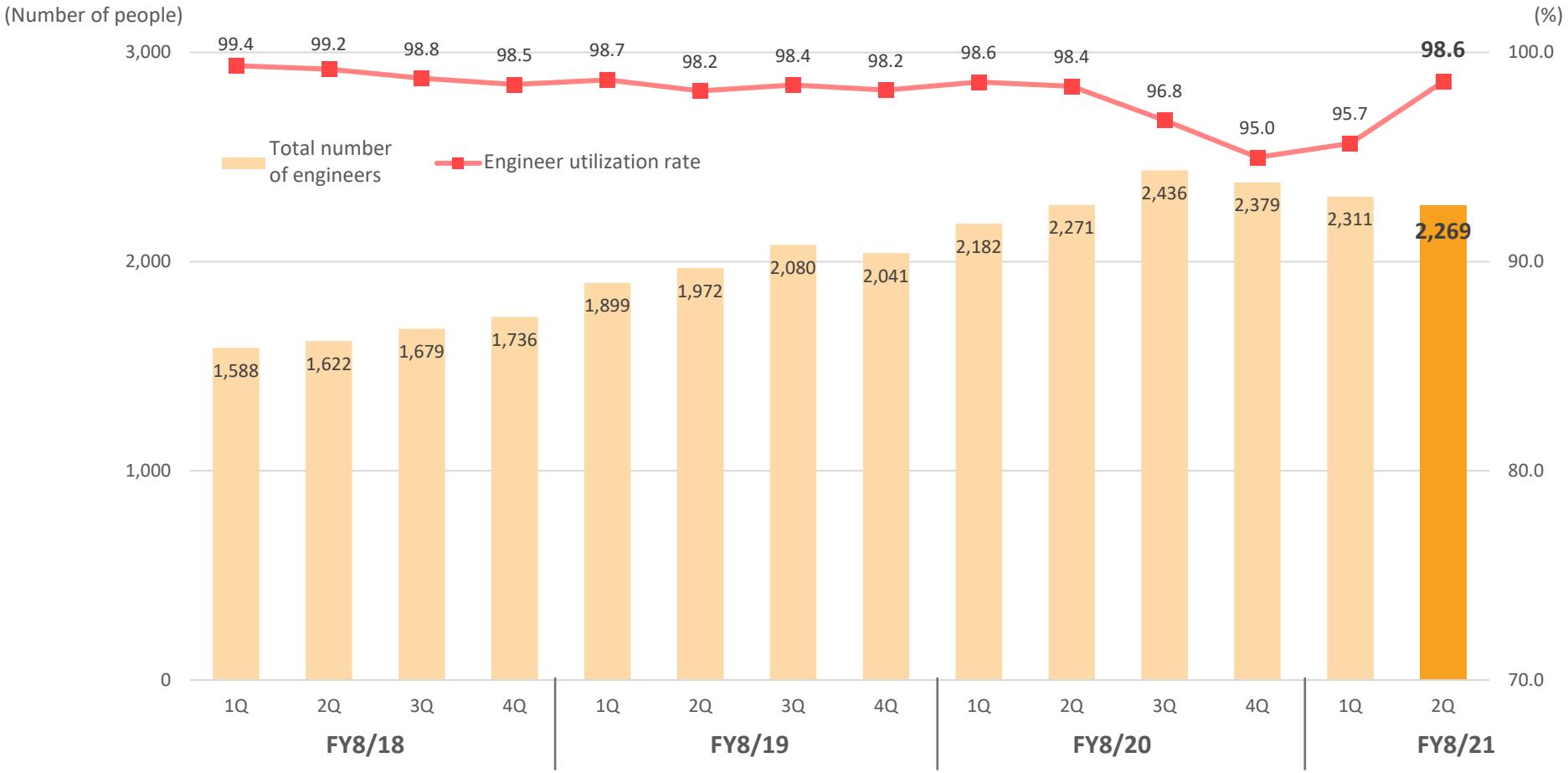
Number of Engineers and Utilization Rate

- **The utilization rate under normal conditions is consistently in the 98%-99% range**
- **This rate fell only to the 95% level during the COVID-19 crisis and recovered to the 98.6% level as of 2Q FY8/21**



*The utilization rate is for engineers who have completed initial training.

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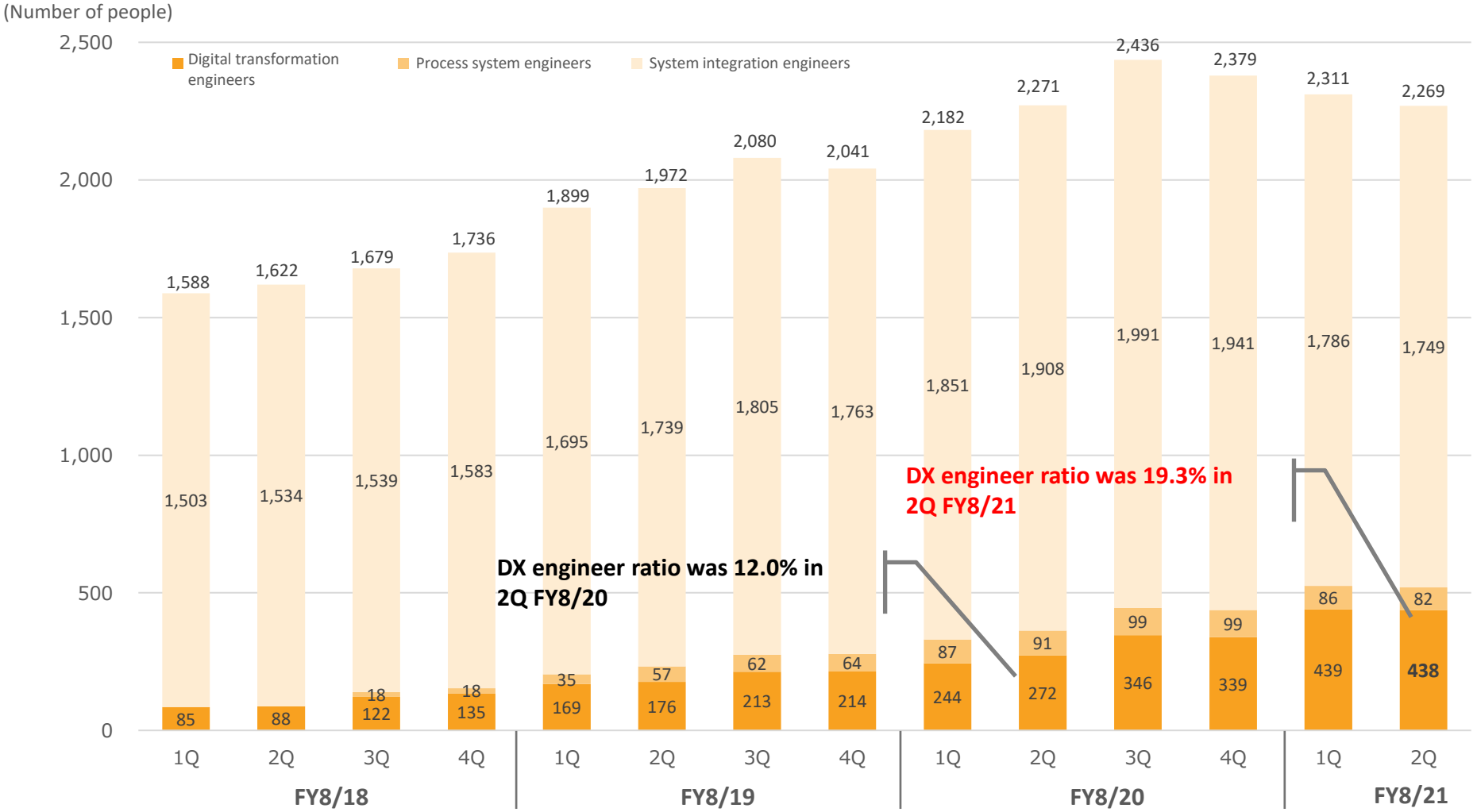
Number of Engineers and Categories

- The number of engineers started decreasing in 4Q FY8/20 in part because of a temporary reduction in investments for growth
- The number of DX engineers is increasing as more people are shifted to the DX domain



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Education for Engineers

- **A training environment that allows using actual projects gives people more advanced engineering skills**
- **Training is focused on acquiring engineering certifications in the DX domain**
- **One goal of the engineering training framework is further raising rates charged for engineering**

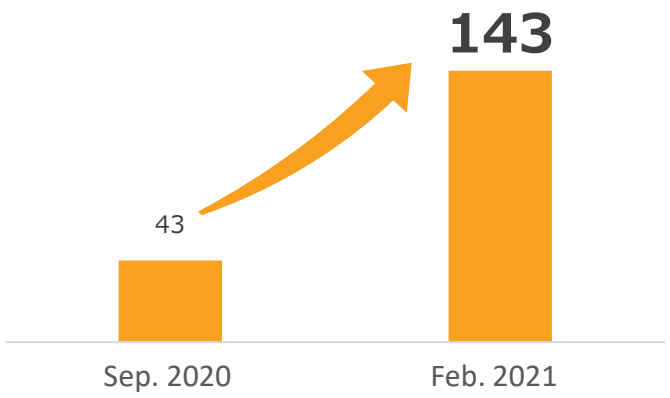
Number of Microsoft Azure Certifications

SERAKU started using the Microsoft Cloud & AI Engineer Development Program in September 2020 and now has a program capable of training more than 200 Microsoft Azure engineers every year to provide DX services.

Examples of certifications

- AZ-900: Microsoft Azure Fundamentals
- AZ-103: Microsoft Azure Administrator
- AZ-104: Microsoft Azure Administrator
- DP-100: Designing and Implementing a Data Science Solution on Azure

and many more



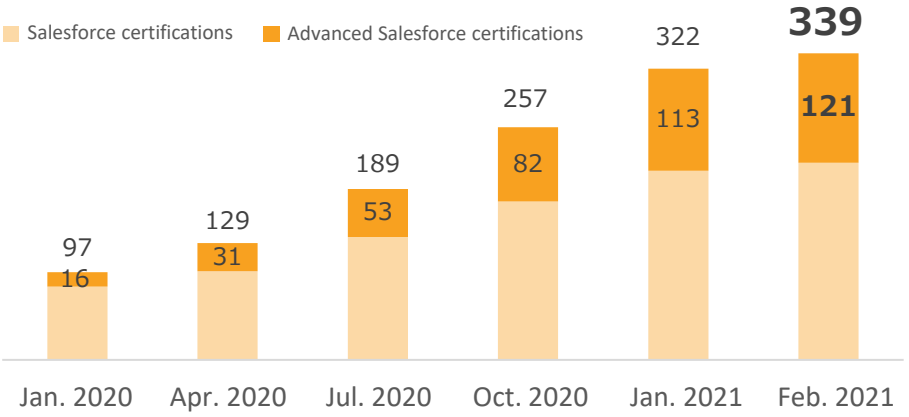
Number of Salesforce Certifications

SERAKU has the fifth-largest number of certified Sales Cloud consultants in Japan (based on March 2021 Salesforce data). Furthermore, SERAKU is among the leaders in Japan in the growth in the number of advanced Salesforce certifications.

Examples of certifications

- Sales Cloud consultant
- Service Cloud consultant
- Field Service Lightning consultant
- Community Cloud consultant
- Einstein Analytics and Discovery consultant
- Pardot consultant

and many more



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Effects of the COVID-19 Pandemic

Business

- There were delays in assigning the approximate 200 new graduates hired in April 2020 to projects, but almost all of these new employees had assignments as of December 2020.
- The engineer utilization rate temporarily decreased because COVID-19 raised the number of people waiting for an assignment. But this rate recovered to 98.6% in 2Q FY8/21.

Recruiting

- Hiring of inexperienced people was reduced starting in May 2020, but the recruiting of experienced people resumed in January 2021 because of the higher engineer utilization rate and receipt of new orders.
- Engineers hired in FY8/21 are expected to contribute to sales growth in the next fiscal year.
- Using different recruiting methods to create new opportunities for hiring people.

Training

- Completed measures for remote education programs.
- Online IT engineer training programs ensure consistent quality for all lessons.

Digital transformation

- Increasing the pace of shifting engineers to the DX domain because of the growing volume of DX needs involving cyber security, customer success solutions and other services

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Topics

- Dec. 20, 2019 **Launch of Agricultural Operation Support Service for Assistance with Managing Agricultural Businesses**

  A free service that supplies produce market information, weather forecasts and agricultural chemicals information and records production plans and harvests

- Feb. 27, 2020 **IoT/Cloud Support Center Opens in Tokyo**

  With 24-hour/365-day operations, this center helps meet the growing demand for services in the cybersecurity business and IoT/cloud support center business

- Mar. 10, 2020 **Expansion of Branches in Nagoya and Osaka**

  To meet the growing need for SERAKU's services in the Nagoya and Osaka areas, the Nagoya and Osaka branches were enlarged for upgrading the environment for training activities and handling a larger volume of work.

- Apr. 1, 2020 **Midori Cloud Selected as a Smart Agriculture Demonstration Project by the Ministry of Agriculture, Forestry and Fisheries**

  A business in Nagasaki prefecture with the involvement of Midori Cloud was selected by the Ministry of Agriculture, Forestry and Fisheries as a smart agriculture demonstration project

- Apr. 1, 2020 **Nationwide Launch of the Farm Cloud Livestock IoT Service**

  The Midori Cloud agricultural IoT service is used to support the production activities of large pig and chicken farms

- May 25, 2020 **R&C Holdings Business Alliance for Smart Agriculture for Produce Distribution**

  This alliance with R&C Holdings, Japan's second-largest fruit and vegetable wholesaler, will facilitate the use of smart agriculture for the distribution of produce

- Sep. 7, 2020 **Cooperation with Microsoft Japan for Training 200 Microsoft Azure Engineers Every Year**

  Training will use the Cloud & AI Engineer Development Program of Microsoft Japan

- Mar. 30, 2021 **Cooperation with NTT Data for Creating 500 Business Reform Personnel over Three Years**

  Started in April 1, 2021 a joint business reform support service starting with service utilization support for companies using Salesforce

- Apr. 6, 2021 **Start of Salesforce Anywhere Support**

  Expansion of support for the use of Salesforce, support for installation, operation and utilization of the Salesforce Anywhere collaboration tool

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III. 2H FY8/21 Initiatives and Growth Forecast

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FY8/21 Plan

- **The engineer utilization rate has returned to the pre-pandemic level and is expected to remain high**
- **Recruiting activities have resumed for significantly increasing the number of engineers, but market conditions must be monitored closely**

	FY8/20 results		FY8/21 plan		
(Millions of yen)		(% to sales)		(% to sales)	(YoY change)
Net salles	13,771	-	15,020	-	**+9.1%**
Operating profit	1,134	8.2%	1,370	9.1%	**+20.8%**
Ordinary profit	1,165	8.5%	1,650	11.0%	**+41.6%**
Profit	654	4.7%	957	6.4%	**+46.3%**
Dividends	4.6 yen	-	5.6 yen	-	**+21.7%**

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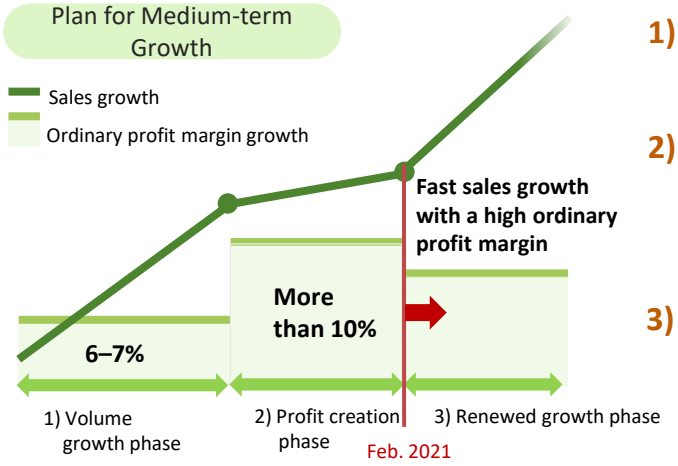
Activities in 2H FY8/21

- While earning profits in FY8/21, we are again concentrating on recruiting activities in order to advance quickly to the next phase of growth
- We are raising the speed of growth initiatives, such as work with partners, business alliances and the DX shift, for sales growth accompanied by higher profitability



1) Volume growth phase (to FY8/20)

- Big investments for recruiting and training IT professionals; growth of the engineer workforce and sales were the key performance indicators.

2) Profit creation phase (to 2Q FY8/21)

- Based on changes in markets due to COVID-19, shifting to a profit creation structure with an ordinary profit margin of more than 10% as the goal.
- Reducing recruiting activity will slow down sales growth, but investments for future value creation are continuing while closely monitoring upcoming changes in the business climate.

3) Renewed growth phase (starting now)

- Resume recruiting and training activities as it has become possible to restart investments in education-based IT professional creation.
- Add new sources of growth by using business partners, alliances and M&A.
- Maintain high profitability along with strong sales growth.

IT professional creation

- Hire experienced people in growing industries, focus on education-based IT professional creation (hiring/training for inexperienced people), mainly for the DX domain.
- Depending on market conditions, we may decide to hire people for FY8/22 earlier than initially planned.
- Further enlarge and upgrade practical education programs due to the success of this training system.

Current businesses

- Become a prime vendor and strengthen business partners in order to aim for sales of more than 50 billion yen.
- Faster pace of shifting current IT experts to the DX domain by using cooperation with Microsoft and Salesforce.com.
- Use activities involving major alliances with NTT Data and other partners in all business fields.

New businesses

- Agricultural IT: Become the primary industry DX leader by expanding the range of agriculture/fisheries solutions for successful companies and the public sector.
- Continue creating new services and reinforcing alliances in the digital healthcare domain.

Infrastructure

- Continue strengthening the framework for business activities and building an IT system infrastructure

Initial Key Performance Indicators

Number of engineers	Engineer utilization rate
2,250	97.9%

Plan to increase the number of engineers and maintain a high utilization rate by resuming recruiting activity while monitoring market conditions

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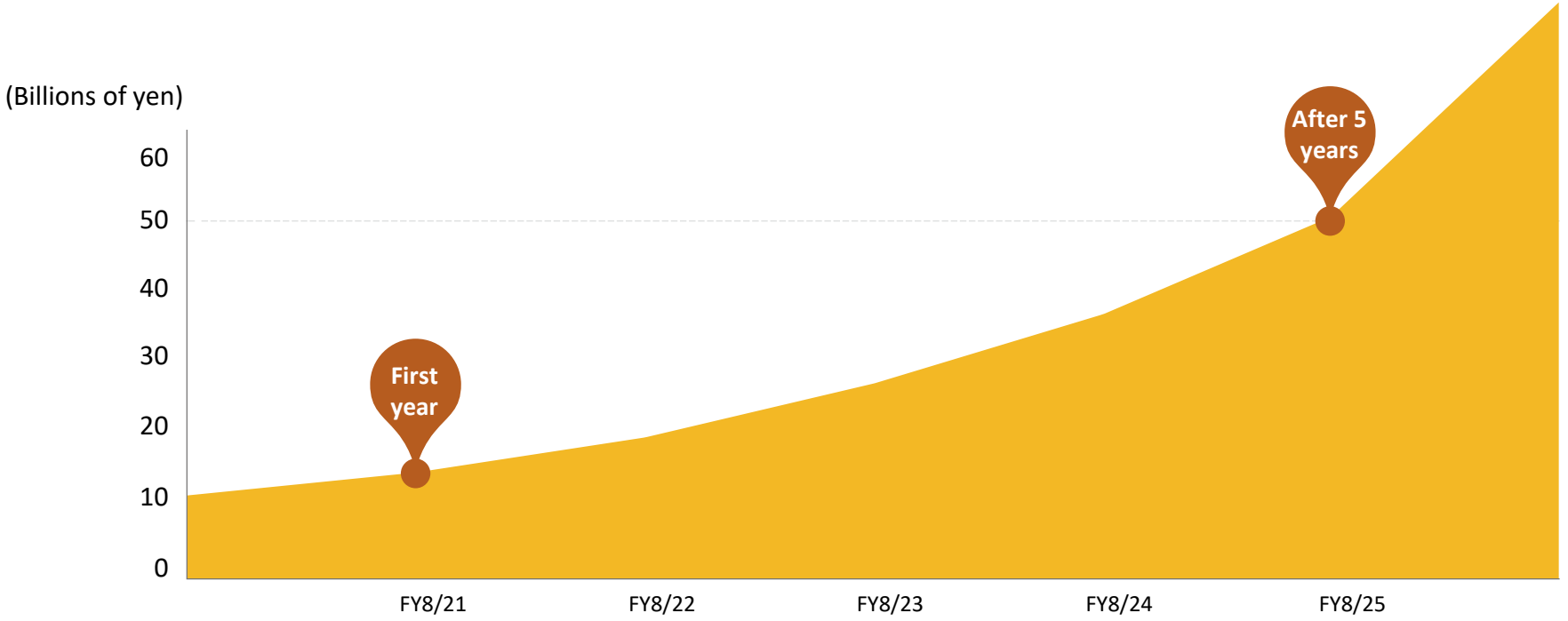
Medium-term Vision

The medium-term plan has the goal of raising sales to 50 billion yen in FY8/25

- Self-fulfillment of engineers and constant business growth by providing many types of job opportunities involving SERAKU business operations, all originating from education-based IT professional creation
- Establish a business to raise both profit margins and the speed of growth by shifting engineers to the DX domain while achieving stable growth in the System Integration business, where demand is expected to remain firm.
- Utilize alliances with major cloud platform companies in order to use operational and utilization support for more growth
- M&A in market sectors with the potential for synergy with existing businesses and provision of SERAKU's recruiting, education and sales expertise to newly acquired companies and businesses for growth
- Launch businesses based on IT that target social issues with growth potential in order to add more sources of growth



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Features and Superiority of the Education-based IT Professional Creation Model

- Starting to create professionals to be prepared for upcoming market growth
- Use horizontal expansion of recruiting, education and sales skills to add more technology domains
- Business growth by taking service formats to a higher level to reflect the growth of markets

Beginning in 2021, we forecast a shift in markets that adds demand for the installation and utilization of cloud systems to the existing demand for the development of IT systems and the provision of maintenance and operation services. As a result, we expect new markets and the need for next-generation engineers.

We will cooperate with major platform companies to create IT engineers with outstanding business insight and skills in order to grow while supporting the ongoing digital transformation in all aspects of society.

2020–
Looking ahead to growth of the Microsoft platform, started training programs for the Microsoft certifications of at least 200 people every year

2018–
Looking ahead to growth of the DX market, started training programs for robotic process automation, security, data science, verification and other activities

2013–
Looking ahead to the growth of the cloud systems market, started training activities for Salesforce engineers

The goal is enlarging the customer success solutions business to a workforce of about 500 within three years

2008–
Looking ahead to the widespread use of smartphones and the IoT, started training programs for smart technology engineers

Currently expanding the Midori Cloud business and other activities in the data science domain

2002–
Anticipating growth in demand for IT utilization services at companies, started training programs for IT infrastructure and network engineers

Currently expanding the System Integration business

1997–
Anticipating growth of the web systems domain, started a system development business and training programs for system development engineers

Currently expanding the System Integration business

1995–
Started an internet business before the internet became widely used and started training programs for web engineers

Currently expanding business operations in the digital marketing domain

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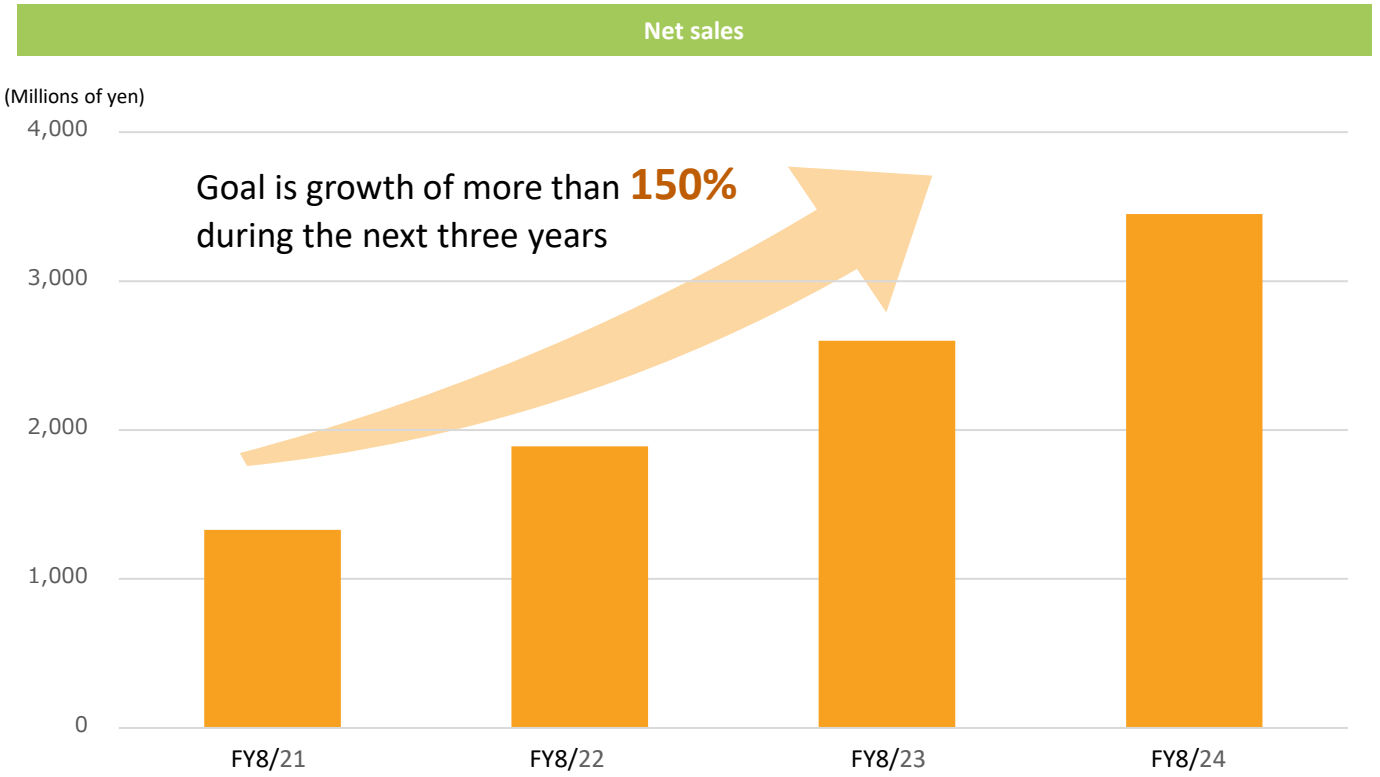
DX: Cloud & Solutions Business　Growth Scenario

High profit margins backed by continuously cumulative managed services and Microsoft platforms

- Use the Microsoft alliance for the certification of at least 200 people every year to assist companies with installation and operation of Microsoft products
- Operate a highly profitable platform resale and license resale business
- Consistent growth of managed services (subcontracted centralized 24-hour/365-day operation of cloud infrastructures for companies)
- Start and expand a security surveillance and operations center business, which is a growing market sector



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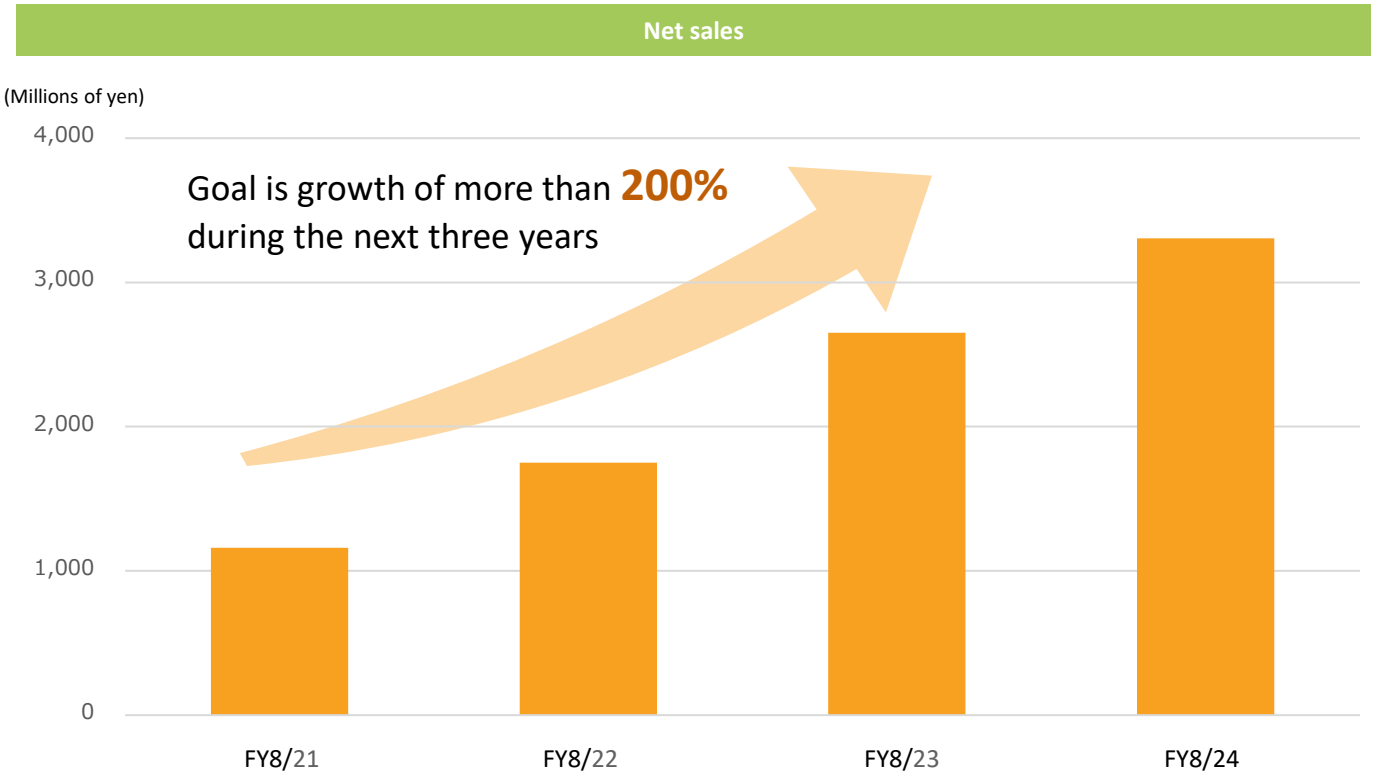
DX: Customer Success Solutions Business　Growth Scenario

Create 500 Salesforce engineers by FY8/24 and become the leader in Japan in the new and growing Salesforce use and operation services market

- In the cloud IT systems field, the market is expanding with the keywords of utilization and operation and digital transformation. SERAKU is a first mover in this field and aims to achieve greater business growth.
- Training programs for no-code/low-code platform engineers with business expertise who will be the main source of utilization, operation and DX services
- Receive more Salesforce utilization and support orders from large and growing companies in Japan by strengthening alliances with NTT Data and other partners



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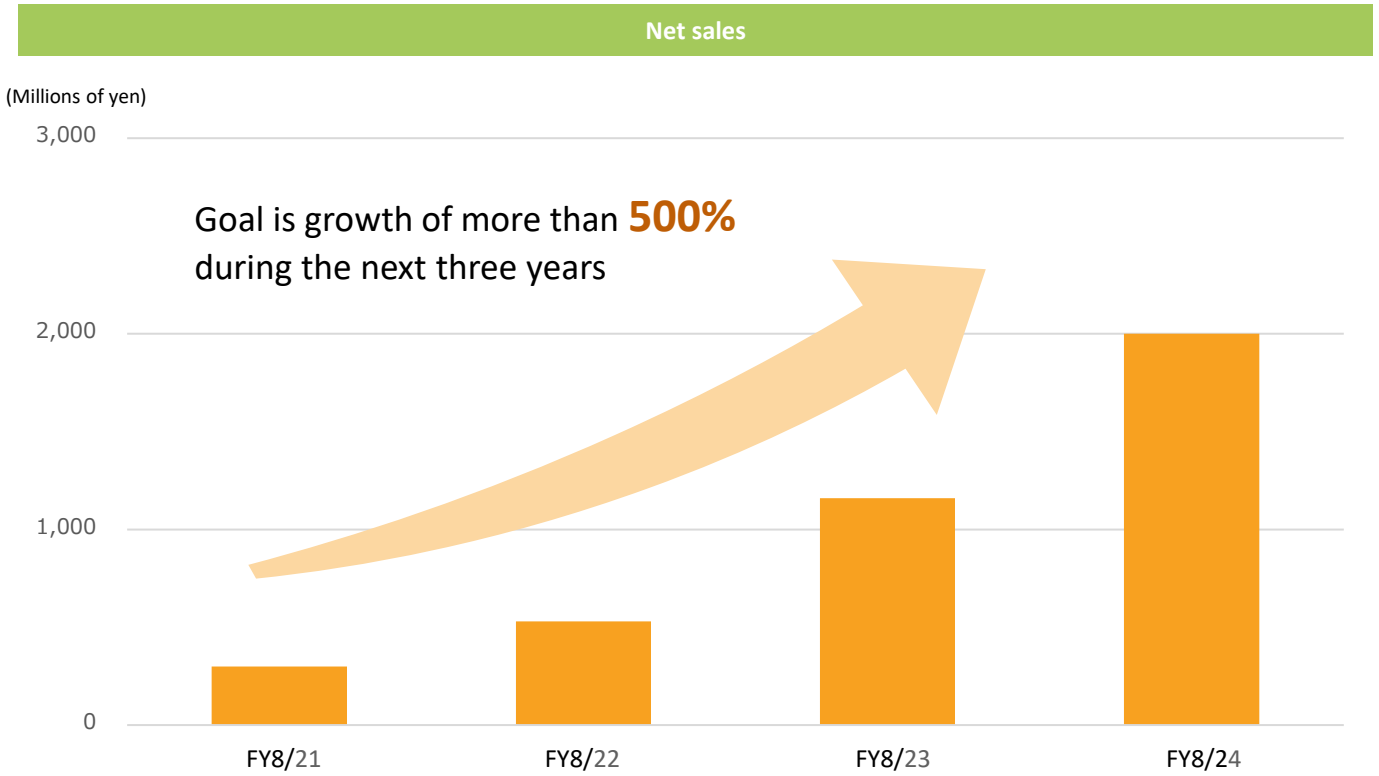
DX: Midori Cloud Business　Growth Scenario

Become the primary industry DX leader, a sector with much growth potential, by combining production support platforms and SERAKU system integration expertise

- Continuously increase production support experience and agricultural IT expertise in order to steadily expand the use of production support platforms
- Receive orders for large agriculture/fisheries solutions during the phase of implementing the primary industry DX at companies and in the public sector
- Become the primary industry DX leader by leveraging synergies between the platform business and agriculture/fisheries solutions business



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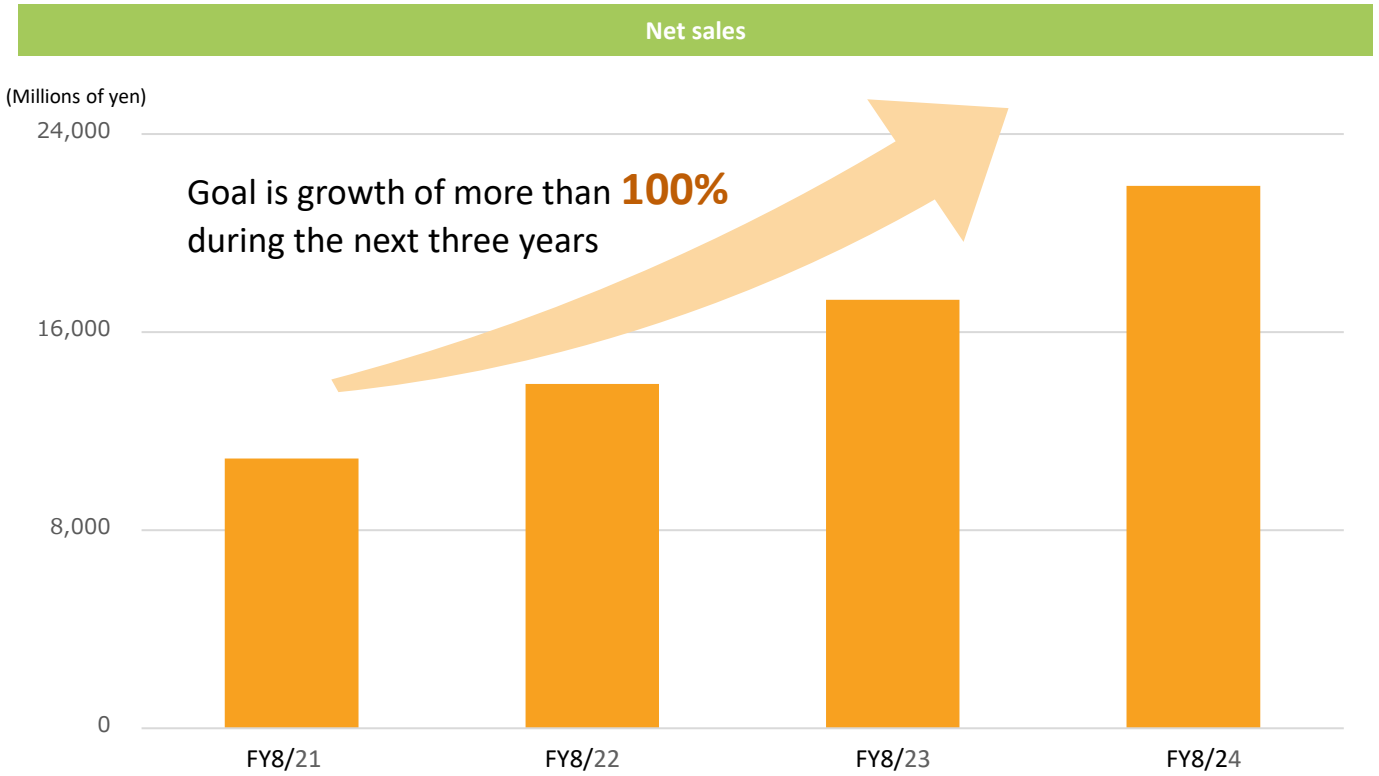
System Integration Business　Growth Scenario

Receive more orders for continuously cumulative IT operation services and projects in industries with steady IT needs while continuing to grow by using recruiting, education and sales skills

- Use education-based IT professional creation for more growth (recruiting may be reduced to maintain profitability depending on market conditions)
- Speed up growth by using sales skills along with more partner companies and more powerful alliances
- For IT needs for various industries, create large projects and subcontracting projects by giving engineers practical training and developing engineers with business process knowledge.



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Forward-looking Statements

Documents and information provided at today's presentation include forward-looking statements.

These statements are based on assumptions that include current expectations, forecasts and risk factors. As a result, forward-looking statements include many uncertainties that may cause actual performance to differ from these statements.

Risk factors and uncertainties include the condition of industries and markets where SERAKU operates, changes in interest rates and foreign exchange rates, and other items involving the Japanese and global economies.

SERAKU has no obligation to update or correct these forward-looking statements even if there is subsequently new information or an event that affects these statements.

An announcement will be made promptly if there are revisions to the FY8/21 forecasts or differences between results of operations and these forecasts that require disclosure.

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