

baudroie inc.

Financial Results Briefing Material
for the Third Quarter
of Fiscal Year Ending February 2024

January 2024



Role Inc.

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Company Overview

Company Overview

Company name baudroie inc.

Directors

President and Chief Executive Officer

Shigehiro Tominaga

Representative Director

Kazuya Fujii

Director

Yoshiaki Hodoshima

Director (Audit and Supervisory Committee Member)

Toshio Okamoto

Kiyoko Yagami

Anna Seo

Subsidiaries

ZOSTEC Inc.

ALJOY Inc.

Head office

Azabudai Hills Mori JP Tower 17F, 1-3-1 Azabudai,
Minato-ku, Tokyo

Second office

BPR Place Kamiyacho 5F, 1-11-9 Azabudai,
Minato-ku, Tokyo

Established April 2007

Fiscal year-end February

No. of employees 872
(including full-time and contract employees)
*As of November 2023

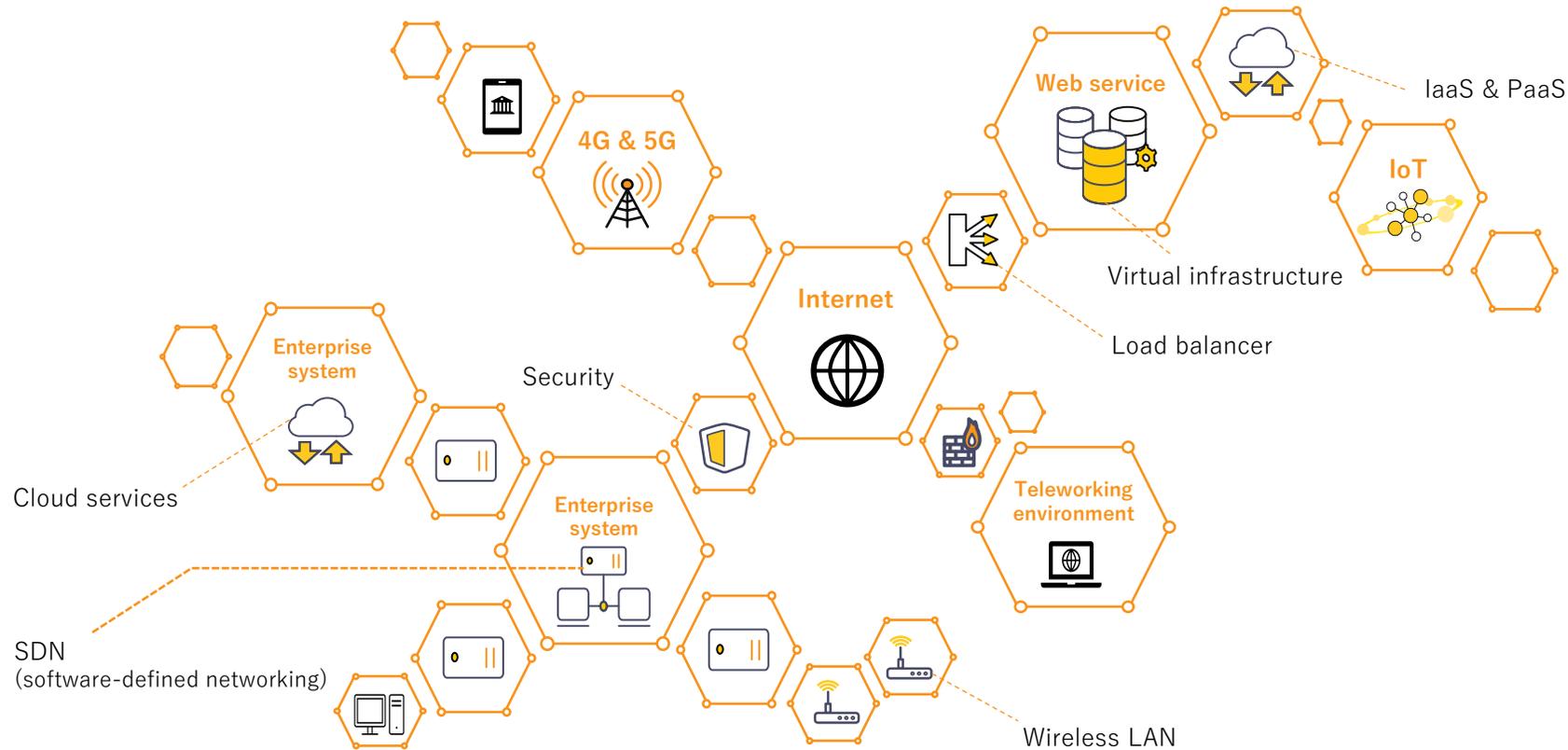
Line of business IT infrastructure business

Major clients SoftBank Corp.
NTT Communications Corporation
Nippon Telegraph and Telephone East Corporation
KDDI CORPORATION
Mitsubishi Research Institute, Inc.
Nomura Research Institute, Ltd.
SQUARE ENIX CO., LTD.

No. of staff with qualifications Cisco Certified Network Associates
(CCNAs): 813
Cisco Certified Network Professionals
(CCNPs): 470
*As of November 2023

What Are IT Infrastructure Services?

IT infrastructure services refer to designing and constructing complex IT infrastructure, including servers that operate systems, networks that connect devices to systems, and security solutions that protect secure communications and information, as well as conducting their operation and maintenance so that a variety of applications and systems can be utilized. These components constitute the IT infrastructure, which has become part of the infrastructure for living.



*Cloud services (IaaS/PaaS): mainly refer to cloud computing services.

*SDN: a technology for creating a virtual network environment using software, allowing flexible setting of network configuration free from physical restrictions.

*Virtual infrastructure: a mechanism for operating multiple hosts and operating systems on a single physical device.

*Load balancer: a mechanism for appropriately distributing communication from terminals for each resource (such as CPUs and memories) when a group of servers is used.

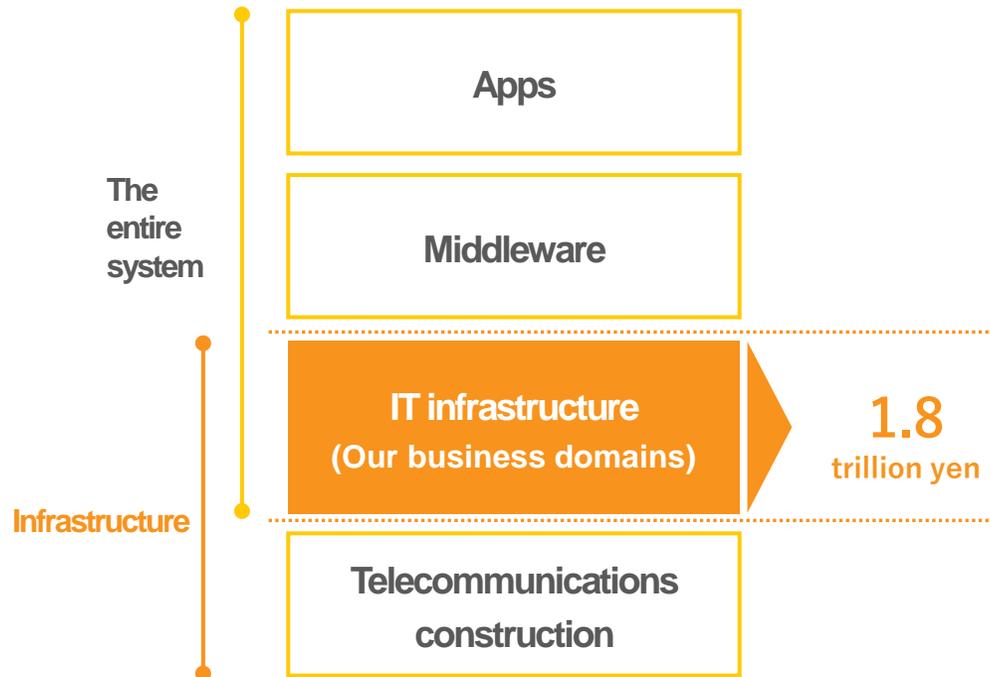
*Security solutions: refers to firewall, IPS (intrusion prevention system) / IDS (intrusion detection system), sandbox, web filtering, etc.

Business Domains

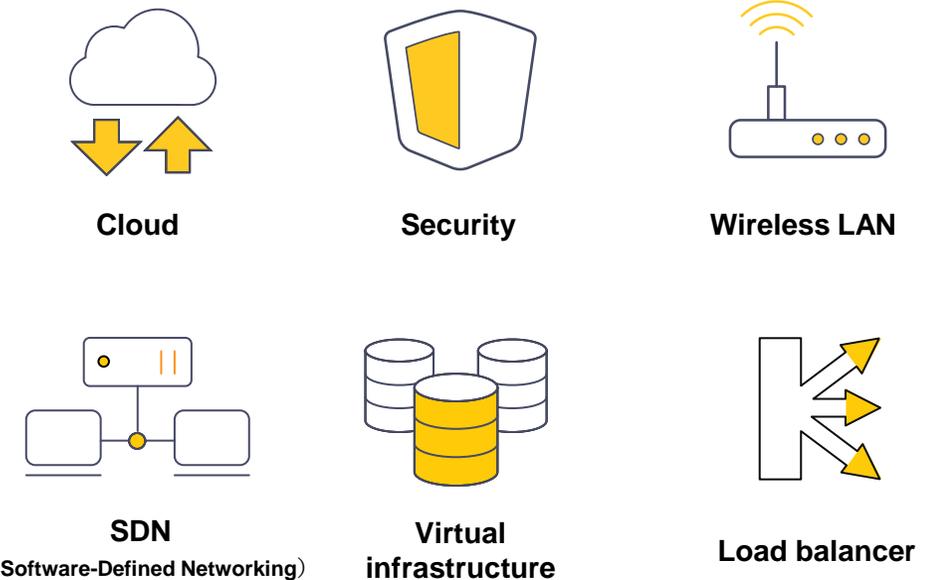
We are a professional operator specializing in IT infrastructure services, especially in advanced technology areas.

Where the IT infrastructure services market is positioned

In 2021, the entire Japanese IT market amounted to 19 trillion yen, of which the IT infrastructure services market accounted for 1.8 trillion yen.



Technology domains that are growing prominently in the IT infrastructure area

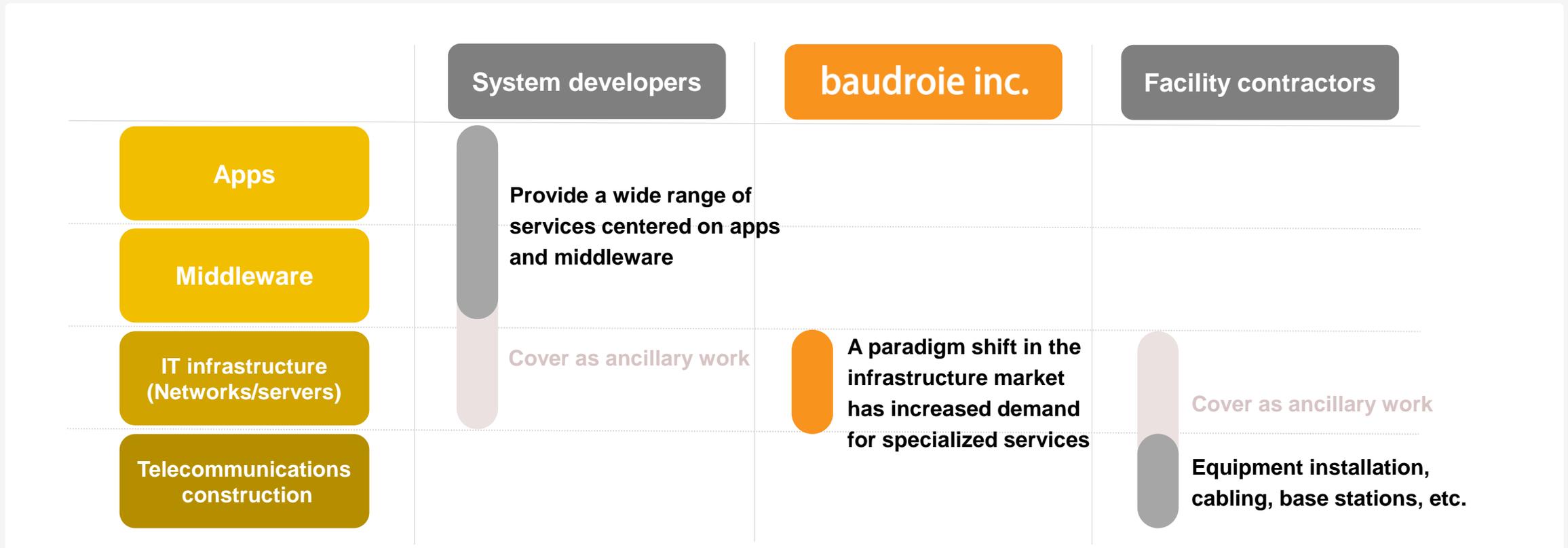


*Source: Press release by IDC Japan, "Announcement of Domestic IT Market Forecasts Reflecting the Impact of COVID-19 and Russo-Ukrainian War at End of March 2022" (May 18, 2022)

*Source: Press release by IDC Japan, "Announcement of Domestic IT Infrastructure Services Market Forecasts" (June 13, 2022)

What Differentiates Us from System Developers and Facilities Contractors

Due to diversifying social needs, IT systems command advanced knowledge and technologies in broader and deeper areas. As the era evolves in this way, attention is being paid to IT system companies with distinctive features, not covering the entire system. Given this trend, we differentiate ourselves as a company specializing in IT infrastructure.



*Apps (applications): refer to such programs as mission-critical systems (for enterprise resource planning), programs operated by users such as web and smartphone applications, groupware (like Microsoft Office 365), and AI and machine learning. These programs are developed using programming languages like Java, C, and Python.

*Middleware: refers to software that runs between applications and the operating system and includes Oracle Database, WebLogic, and Apache HTTP Server.

*Telecommunications construction: LAN wiring, construction of base station facilities, equipment installation, etc.

Highlights of Consolidated Financial Results

Executive Summary

Net sales (Q1-Q3 [cumulative])

5.39 billion yen (up **43.6%** YoY)

Operating profit (Q1-Q3 [cumulative])

1.14 billion yen (up **77.6%** YoY)

- ✓ **Given a trend of increasingly higher profit in later quarters of the fiscal year, the Company has made good achievements with the progress rate of operating profit against the full-year forecast at **89.5%** as of Q3.**
 - **Operating profit grew while absorbing the expenses for voluntary audits in preparation for adopting IFRS and expenses related to head office relocation.**
- ✓ **Because there is a positive difference between the actual sales and the budgeted sales for the current fiscal year, priority in the Q4 will be given to the acquisition of medium- and large-sized projects whose **acceptance inspection period will extend into the next fiscal year.****
- ✓ **Conducted **purchase of treasury shares****
 - **Purchase period: from October 26, 2023 to January 31, 2024**
 - **Will keep holding the purchased treasury shares for use in future M&As, etc.**

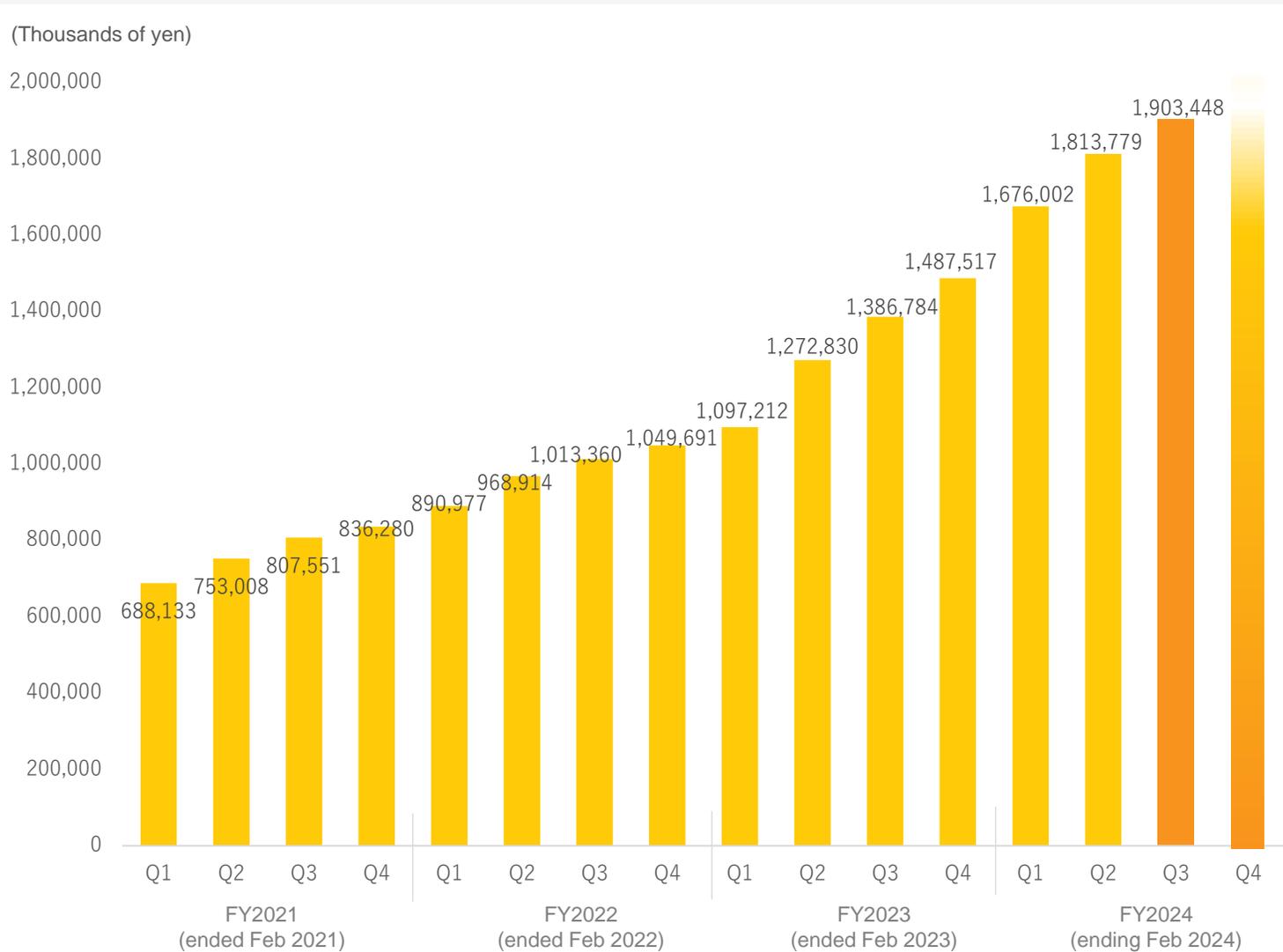
Summary of Consolidated Financial Results

- ✓ In order to continue high growth in the next fiscal year and onward, priority will be given in Q4 to the acquisition of medium- and large-sized projects whose acceptance inspection period will extend into the next fiscal year. Will endeavor to make such up-front investments while securing a profit growth rate higher than that in the previous fiscal year.
- ✓ Preparing for the next fiscal year is on track, as we aim for even higher growth, including the above endeavors.

(Thousands of yen)	Q1 – Q3 (cumulative) FY2023 ended Feb 2023	Q1 – Q3 (cumulative) FY2024 ending Feb 2024	YoY
Net sales	3,756,826	5,393,229	+ 43.6%
Operating profit	639,740	1,136,092	+ 77.6%
Profit before tax	753,834	1,145,836	+ 52.0%
Profit*	511,385	766,690	+ 49.9%

*Profit attributable to owners of parent

Trends in Quarterly Consolidated Net Sales



✓ As before, an increasingly larger proportion of sales is projected in the remaining quarters of FY2024 for the following reasons:

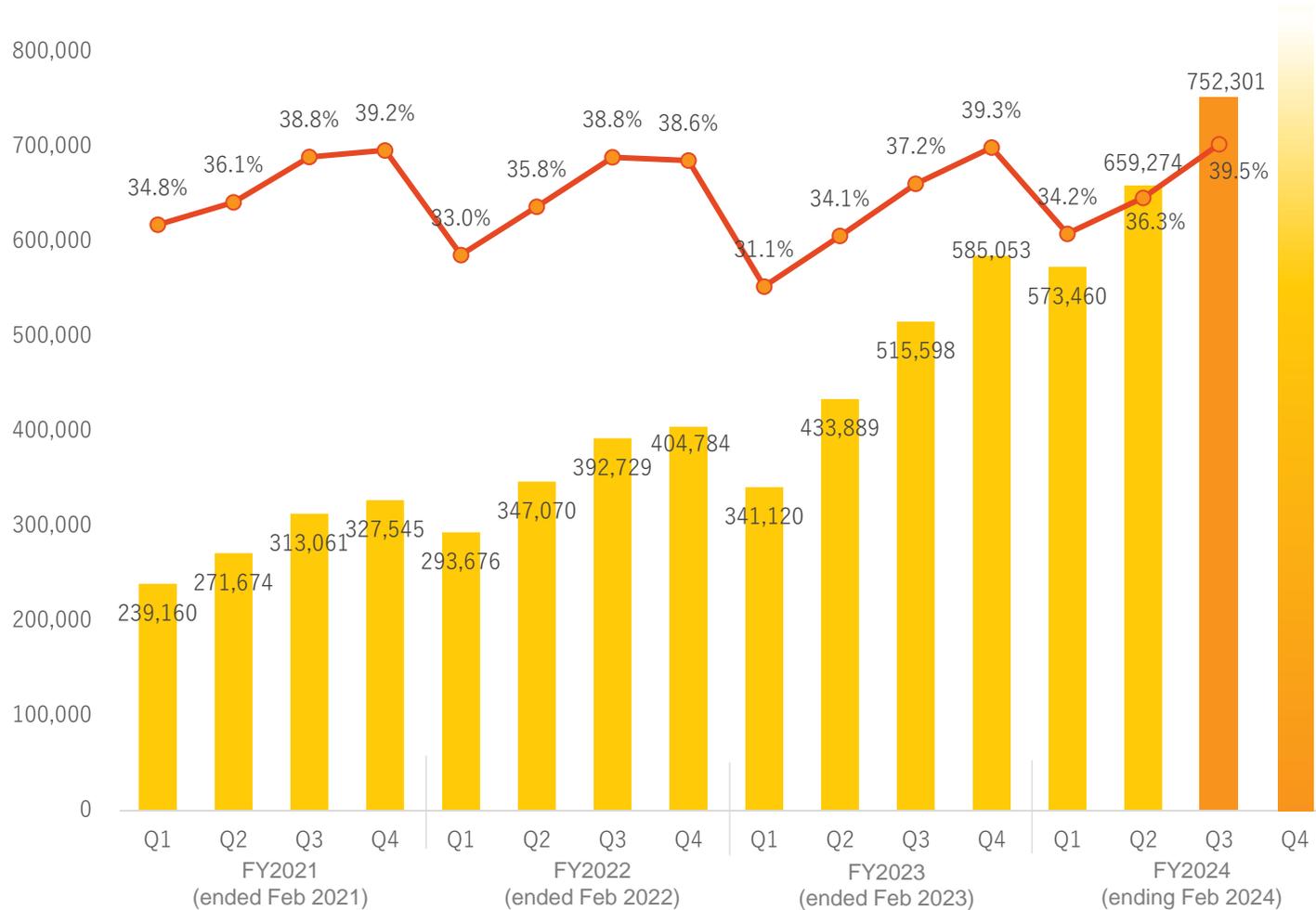
- The number of acceptance inspections will further rise in Q2 through the end of the fiscal year.
- With engineers (new graduate employees in the second or more year of employment) becoming capable of conducting actual work, reassignment of specialized talents (new graduate employees in the third or more year of employment) and highly specialized talents will be conducted in Q2 through the end of the fiscal year.

✓ While an increasingly larger proportion of sales is expected in Q3 and Q4, we anticipate to achieve the earnings forecast even if Q3 and Q4 figures are similar. Because there is a positive difference between the actual sales and the full-year budget, priority in the Q4 will be given to the acquisition of medium- and large-sized projects whose acceptance inspection period will extend into the next fiscal year.

➔ As the cost recovery method is adopted in the new Accounting Standard for Revenue Recognition, only the amount equivalent to the cost of sales will be recorded as sales until the month when acceptance inspection is completed.

Trends in Quarterly Consolidated Gross Profit

(Thousands of yen)



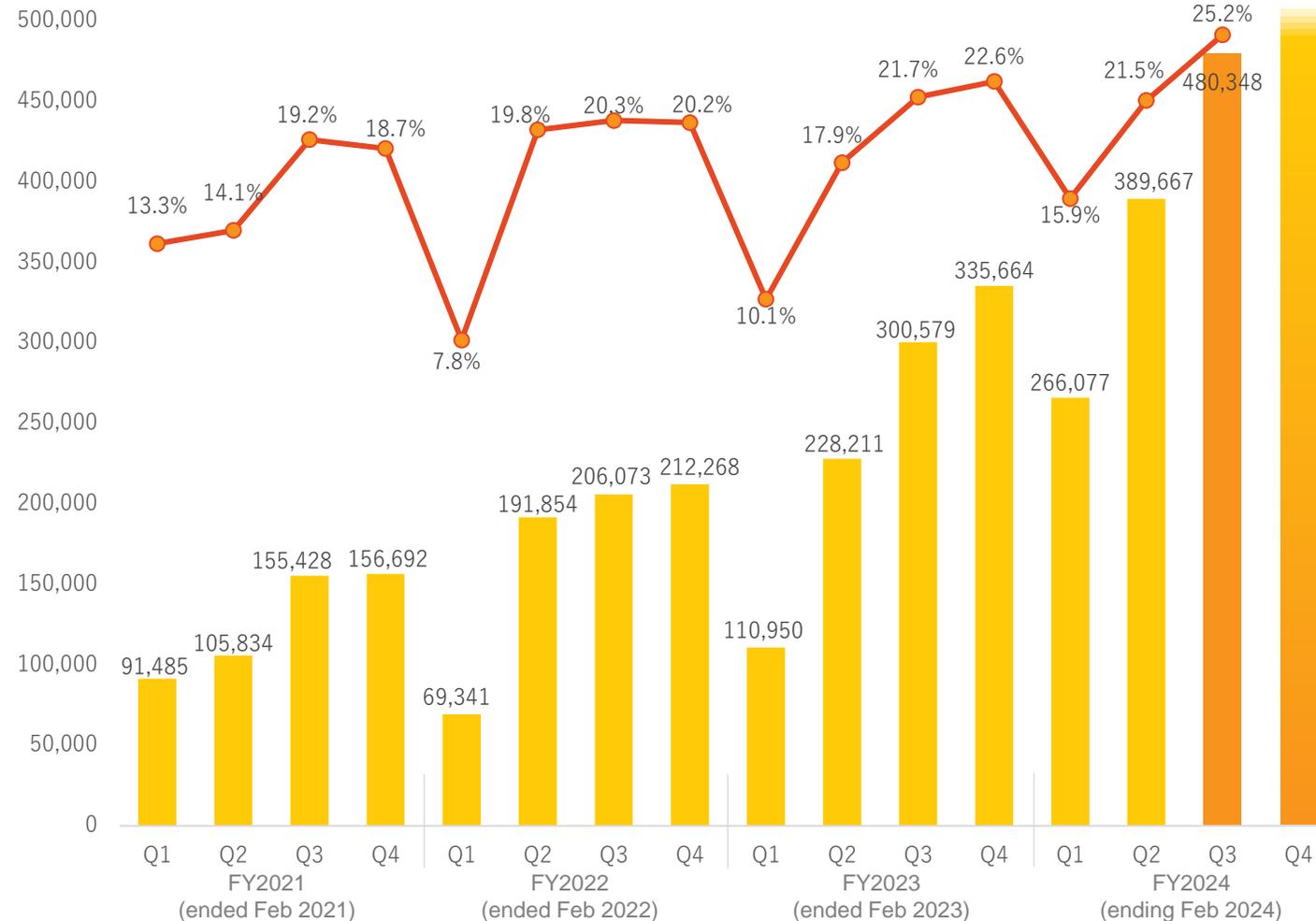
✓ Gross profit for Q3 FY2024 amounted to **750** million yen.

✓ On a non-consolidated basis, gross profit margin shows a rising trend due to heightened competitive advantage.

✓ Achieved a record-high gross profit margin of **39.5%** as post-merger integration (PMI) proceeded steadily at subsidiaries.

Trends in Quarterly Consolidated Operating Profit

(Thousands of yen)



✓ Operating profit for Q3 FY2024 amounted to **480** million yen.

✓ Operating profit increased while absorbing the expenses for voluntary audits in preparation for adopting IFRS and part of the expenses related to head office relocation.

✓ Conduct up-front investments in Q4 to achieve growth in the next fiscal year and onward while securing a growth rate higher than that in the previous fiscal year.

✓ Combined operating profit of the two subsidiaries also grew significantly.

Q2 FY2024(quarterly)

38,289
thousand yen



Q3 FY2024(quarterly)

48,923
thousand yen

Status of Progress Against the Full-Year Consolidated Earnings Forecast

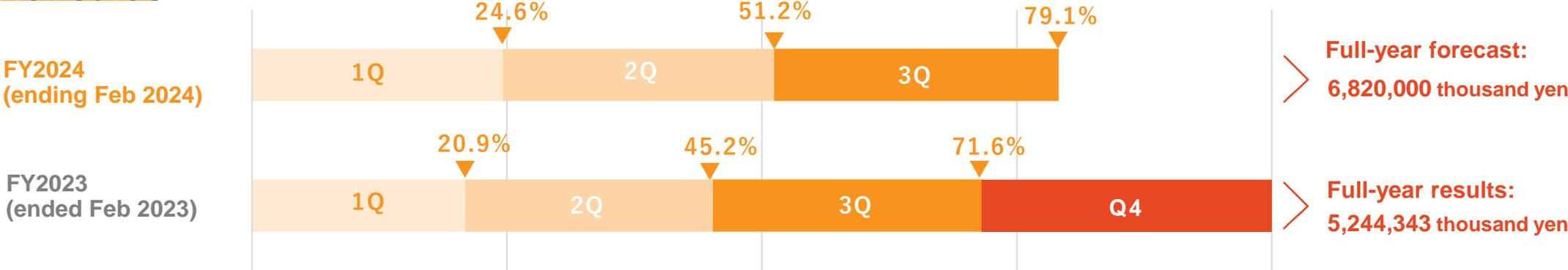
✓ Both net sales and profits grew to already surpass FY2023 full-year results, even as of Q3.

(Thousands of yen)	Cumulative results of Q1 – Q3 FY2023 ended Feb 2023	FY2023 full-year results	Progress rate	Cumulative results of Q1 – Q3 FY2024 ending Feb 2024	FY2024 full-year forecast	Progress rate
Net sales	3,756,826	5,244,343	71.6%	5,393,229	6,820,000	79.1%
Operating profit	639,740	975,404	65.6%	1,136,092	1,270,000	89.5%
Profit before tax	753,834	1,089,123	69.2%	1,145,836	1,363,000	84.1%
Profit*	511,385	793,970	64.4%	766,690	993,000	77.2%

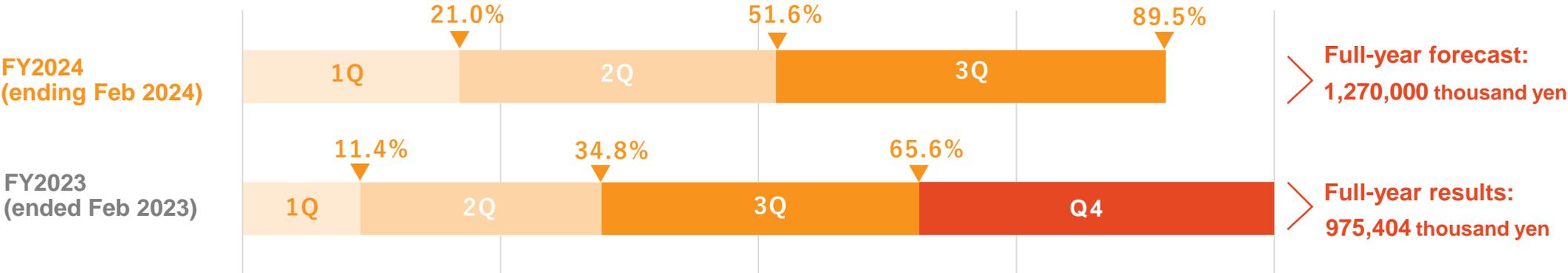
*Profit attributable to owners of parent

Status of Progress Against the Full-Year Consolidated Earnings Forecast

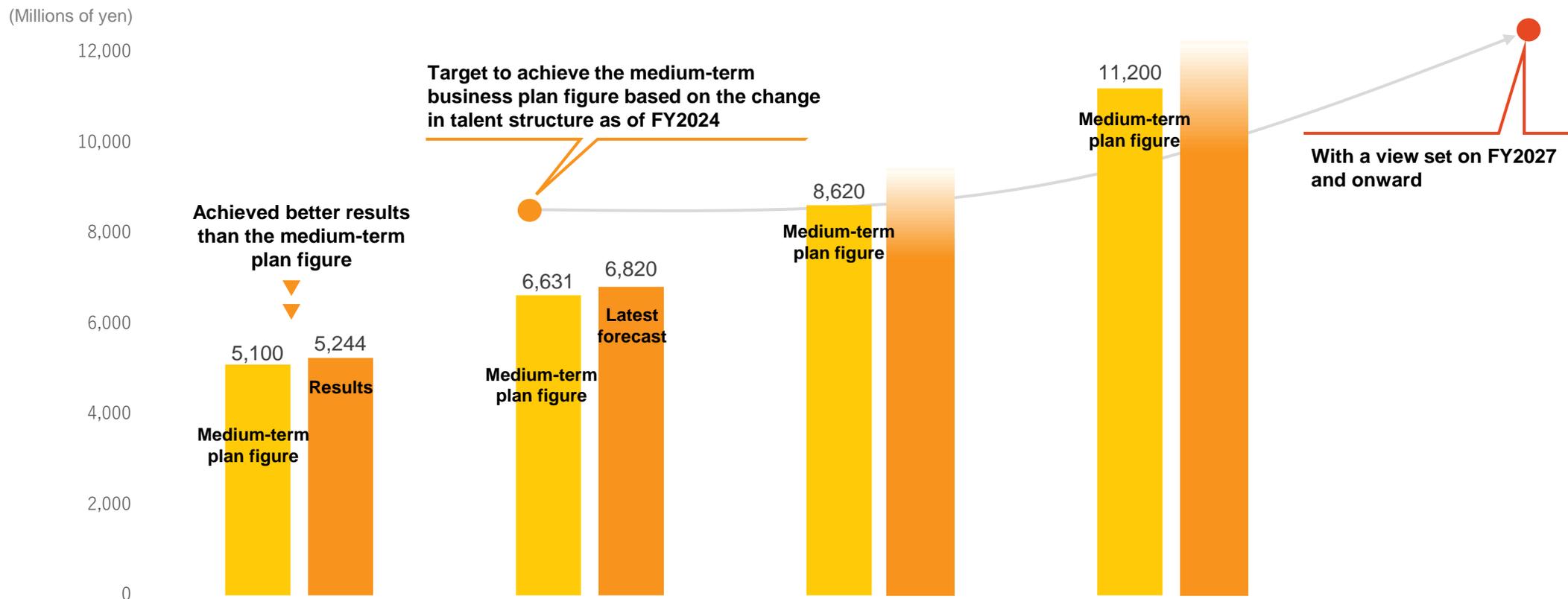
Net sales



Operating profit



“Beyond 100” Medium-Term Business Plan: Net Sales

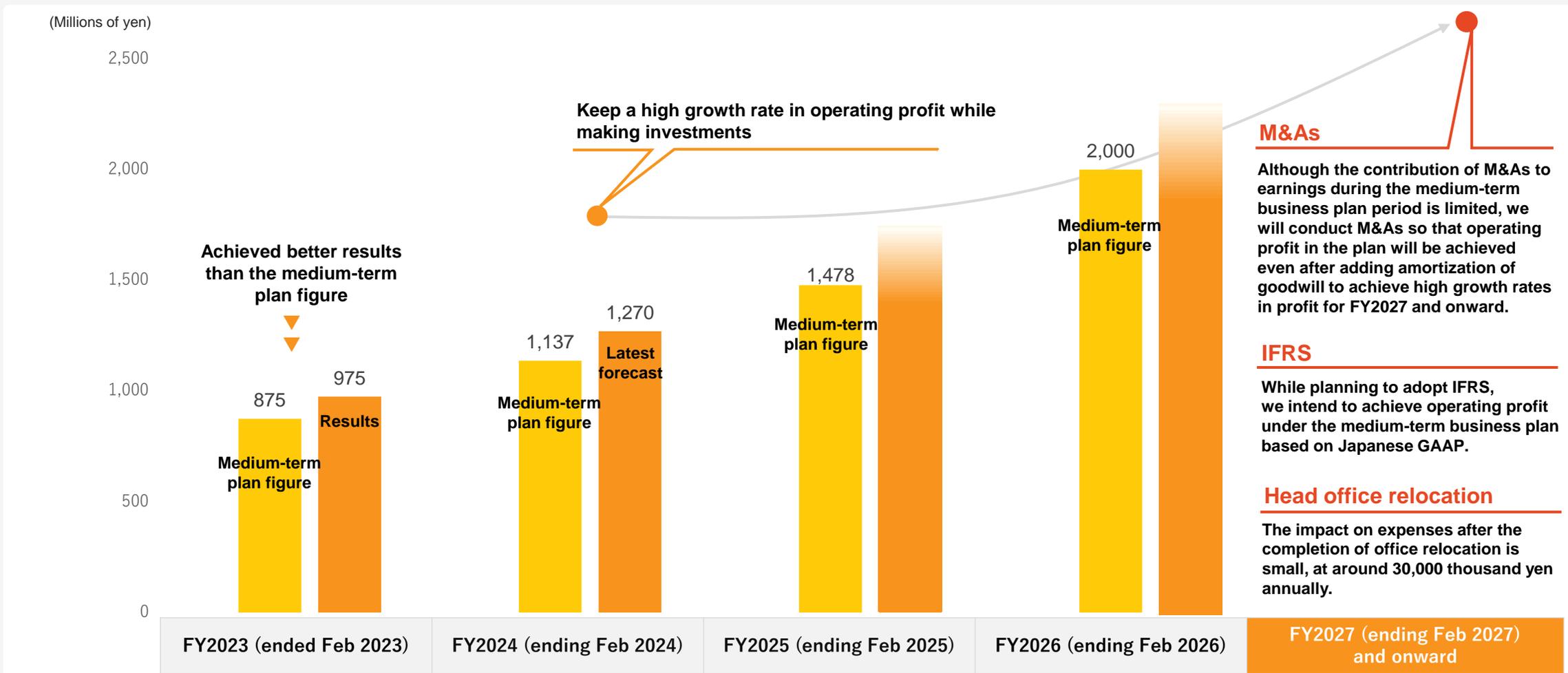


	FY2023 (ended Feb 2023)	FY2024 (ending Feb 2024)	FY2025 (ending Feb 2025)	FY2026 (ending Feb 2026)	FY2027 (ending Feb 2027) and onward
Highly specialized talents	135	164	220	295	To achieve high growth for FY2027 and onward, the number of hires will increase in line with the increase in the total number of employees.
Specialized talents	247	335	405	450	

*Number of people on a non-consolidated basis

“Beyond 100” Medium-Term Business Plan: Operating Profit

With the target of achieving an annual growth rate of **30%** for both net sales and operating profit in the medium-term business plan and aiming even higher, we aim to make an upward revision to the plan.

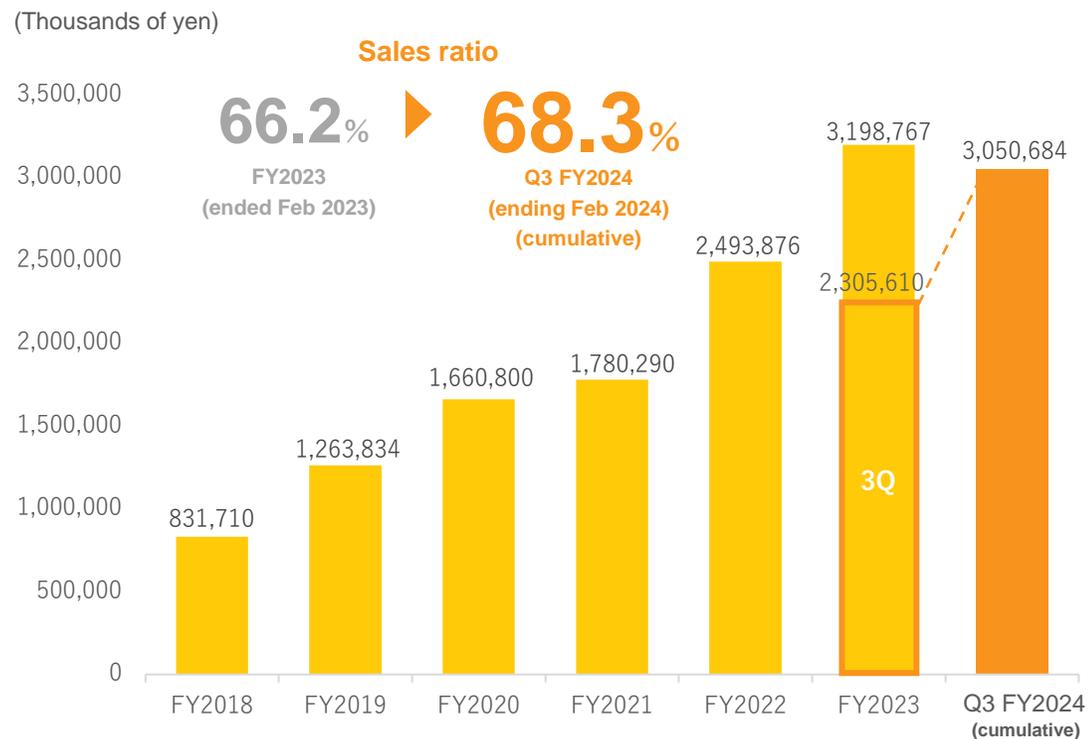


Highlights of Non-Consolidated Financial Results

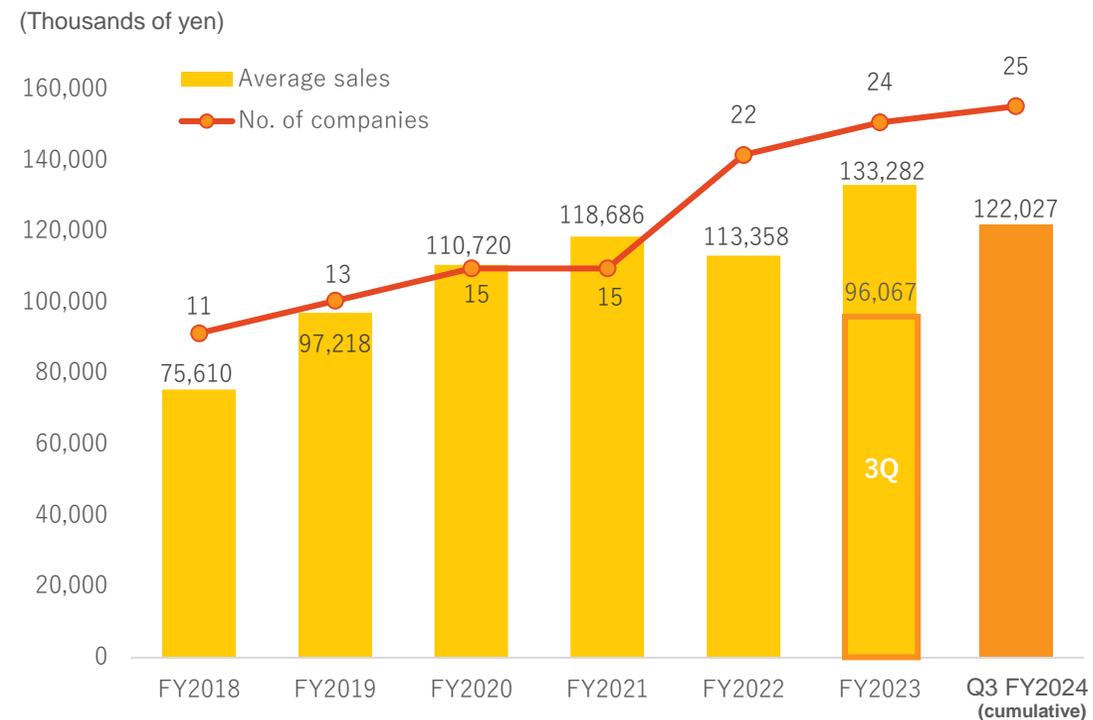
Sales to Enterprise Clients

- ✓ Both combined sales and average sales grew strongly, as selective order receptions to prioritize projects for more promising enterprise clients were smoothly conducted.
- ✓ Continue to focus on expanding and deepening projects to increase the sales ratio of enterprise clients over the medium to long term.

Total sales to enterprise clients



Average sales per company and the number of enterprise clients

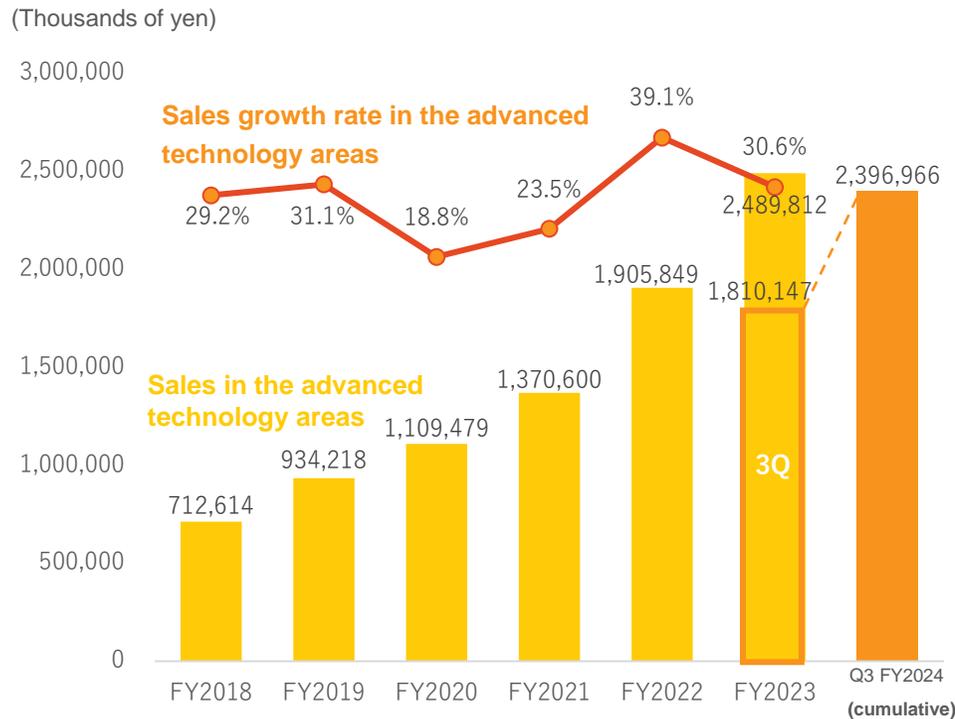


*Enterprise clients are defined as companies selected for either the Nikkei 225, Nikkei 400, or Nikkei 500, or companies with sales of 50 billion yen or more.

Sales in Advanced Technology Areas

- ✓ Sales in the advanced technology areas have remained strong, and we will increase the sales ratio in these areas over the medium to long term.

Sales trends
in the advanced technology areas



Advanced technology areas
expected to have high growth potential

	Forecasted market size	CAGR of the market	Our sales ratio ※6
Wireless (global market)	US\$ 130.6 billion (2026)*1	15%	17% → 0p
Load balancer (global market)	US\$ 8.9 billion (2027)*2	13%	23% ↑ 1p
Network virtualization (domestic market)	Approx. ¥ 50 billion (2026) *3	3%	11% → 0p
Cloud (domestic market)	¥ 4.3 trillion (2026)※4	21%	27% ↓ 1p
Security (Domestic market: software, appliances)	¥ 531.7 billion (2026) *5	4%	15% ↑ 2p

*Advanced technology areas: technology areas where we are deemed to have high specialty and that are related to any of the wireless, load balancer, SDN, cloud, security, or server virtualization technologies.

*1 Source: "Global Wireless Connectivity Market" by BCC Research (provided by Global Information, Inc. as agent)

*2 Source: "Load Balancer Market: Global Industry Trends, Share, Size, Growth, Opportunity and Forecast" by IMARC Services Private Limited (provided by Global Information, Inc. as agent)

*3 Source: Press release by IDC Japan, "Announcement of Domestic Network Virtualization/Automation Market and NFV Market Forecasts" (May 11, 2022)

*4 Source: Press release by IDC Japan, "Announcement of Domestic Public Cloud Service Market Forecast" (September 15, 2022)

*5 Source: Press release by IDC Japan, "Announcement of Latest Domestic Information Security Market Forecasts" (May 26, 2022)

*6 The changes in "our sales ratio" (indicated by arrows) show comparison with FY2022 results and include overlapping sales in two or more areas.

Development of Specialized and Highly Specialized Talent

- ✓ Develop highly specialized talents based on our education and training systems dedicated to IT infrastructure.

	Specialized talent		Highly specialized talent
FY2021 (ended Feb 2021)	122	▼	97
FY2022 (ended Feb 2022)	174	▼	109
FY2023 (ended Feb 2023)	247	▼	135
Q3 FY2024 (ending Feb 2024)	333	▼	162

*For the definition of specialized and highly specialized talents, refer to the Appendix.

Illustrative Drawing of our Strategy

Prepare for high growth to be achieved in FY2027 and onward.

Transform sales composition

Raise the sales ratio

of advanced technology areas and enterprise clients



Transform talent structure

Raise the ratio of specialized

and highly specialized talents



Highly specialized talent

Specialized talent

New employees that need up-front investment

Expand the talent base that will eventually grow into specialized and highly specialized talent

M&As

Hiring

Past M&A Results and Future M&As Utilizing Treasury Shares

Trends in net sales and operating profit of subsidiaries (total of the two companies)

	At the time of acquisition		Q1 - Q3 (cumulative) FY2024 ending Feb 2024
Net sales	613,703 thousand yen (full-year)	▶	975,746 thousand yen (March - November)
Operating profit	-2,136 thousand yen (full-year)	▶	96,922 thousand yen (March - November)



Post-merger integration (PMI) is sufficiently conducted even now, but we will achieve more effective PMI by using the following method.

Going forward, we will use part of our treasury shares to acquire companies. By retaining their ownership not only at the management team of the parent company but also at the **management team of the acquired companies**, we will build an organizational structure that can generate **further** added value.

Our Stance for Implementing Future M&As

As an acquisition scheme to deepen collaboration among the Group, we will pay part of the consideration for the acquisition of a subsidiary's shares by using our treasury shares. By doing so, we intend to let the president of the acquired company retain part of its ownership while giving incentives to commit himself or herself to expanding the corporate value of the Group from the perspective of the founder.

	No participation in the Group	Participation in the Group (100% share transfer)	Participation in the Group (Partial share exchange)
Consideration for acquisition	No consideration	Consideration in money only ▶ No ownership With a weak sense of unity in the Group, it is difficult to conduct PMI for deeper collaboration.	Cash + Treasury shares ▶ Retain ownership With a strong sense of unity in the Group, it is possible to conduct PMI for deeper collaboration.
Company growth	Realistic and achievable growth 	Growth through PMI 	Accelerated growth through PMI 

Summary of Highlights

Expand business in preparation for the planned transfer to the TSE Prime market.

01

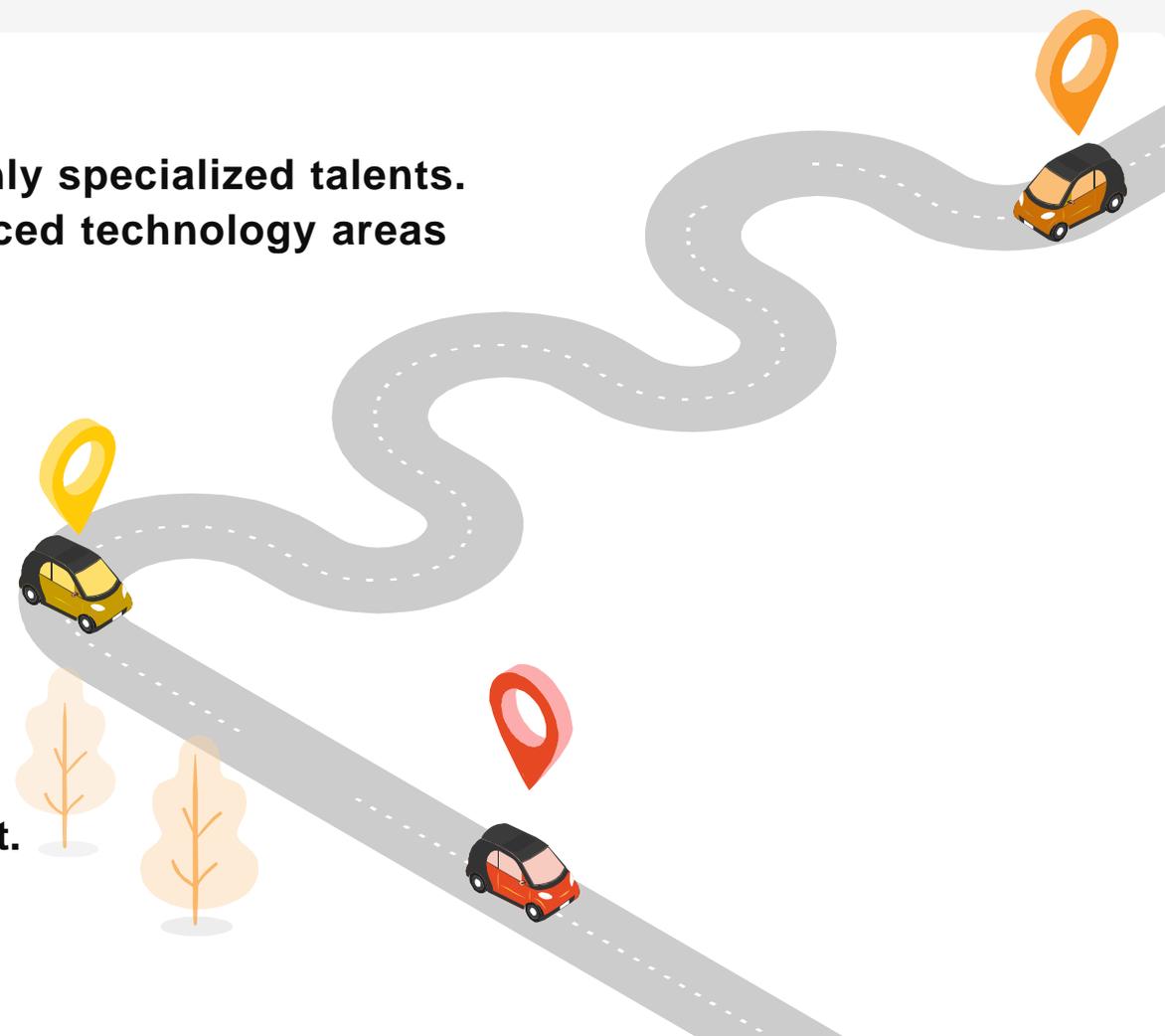
- ✓ Raise the ratio of specialized and highly specialized talents.
- ✓ Expand and deepen projects in advanced technology areas and for enterprise clients.
- ✓ Conduct M&As.

02

- ✓ Maintain high growth rates.
- ✓ Implement the medium-term business plan.

03

- ✓ Plan to transfer to the TSE Prime market.
- ✓ Investigate implementation of the dividend policy.



Appendix

Trends in Financial Results

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
(Thousands of yen)	10th period	11th period	12th period	13th period	14th period	15th period	16th period
Net sales	1,626,968	2,087,013	2,261,561	2,648,008	3,084,973	3,922,944	5,244,343
Operating profit	131,471	230,012	274,696	409,339	509,439	679,536	975,404
Ordinary profit	116,255	217,992	237,982	395,841	542,494	688,011	1,033,662
Profit*	79,757	135,544	162,557	278,824	415,711	542,774	793,970
Operating profit margin	8.1%	11.0%	12.1%	15.5%	16.5%	17.3%	18.6%
Ordinary profit margin(%)	7.1%	10.4%	10.5%	14.9%	17.6%	17.5%	19.7%
Net sales growth rate (%)	-	28.3%	8.4%	17.1%	16.5%	27.2%	33.7%
Operating profit growth rate (%)	-	75.0%	19.4%	49.0%	24.5%	33.4%	43.5%

Trends in financial results

Net sales have grown strongly.

Operating profit margin has risen remarkably as a result of specialization in networks.

Factors/changes

Clients' IT systems have become increasingly complex in line with the evolution of their services.



There is a need for highly specialized companies like us.

*Profit attributable to owners of parent

Recurring Sales through Continuous Services with Retained Clients

✓ Due to an increase in upstream projects as the ratio of specialized and highly specialized talents rose, higher growth was achieved in single-project sales than in recurring sales that earn revenue through continuous services with retained clients.

FY2023 (ended Feb 2023)



Recurring sales: 2,535,323 thousand yen

Q3 FY2024 (ending Feb 2024) (cumulative)



Recurring sales: 2,150,013 thousand yen

Definitions of Specialized and Highly Specialized Talents

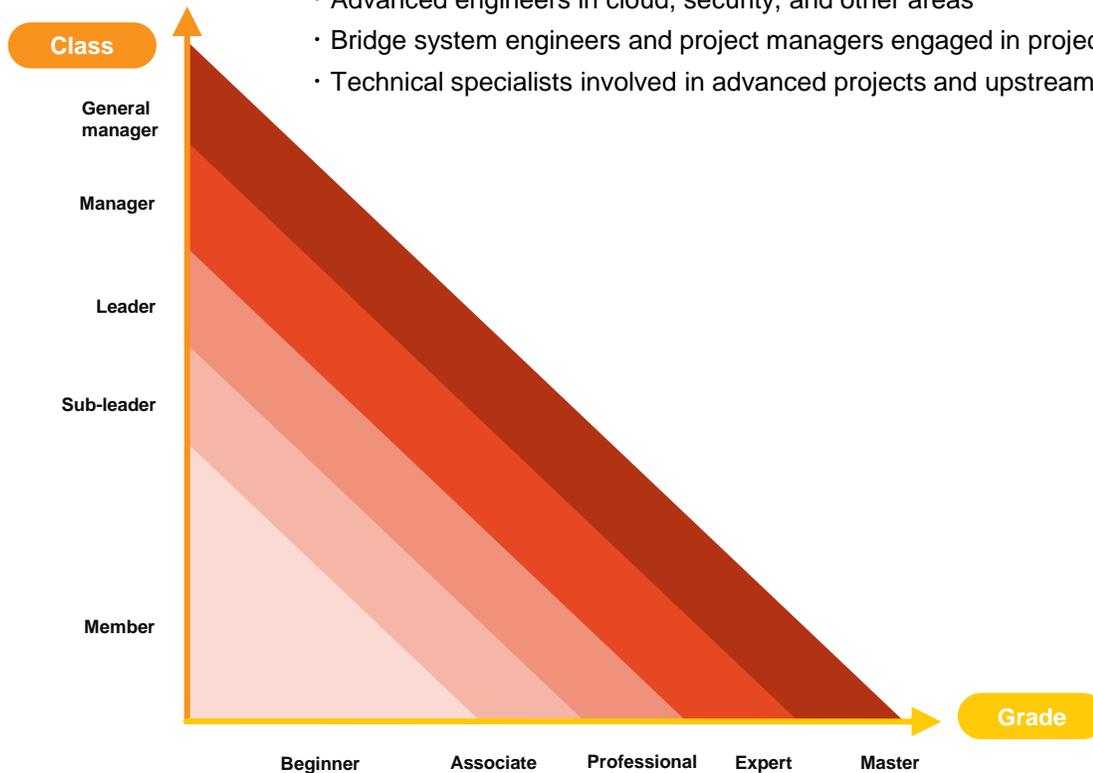
Specialized talents

Employees at sub-leader or higher levels in comprehensive capabilities, which are rated by class, or associate or higher levels in technical capabilities, which are rated by grade, in our personnel assessment and who are certified as CCNP (professional level) (excluding highly specialized talents)

Highly specialized talents

Employees in our personnel assessment at leader or higher levels in comprehensive capabilities, which are rated by class, or professional or higher levels in technical capabilities, which are rated by grade, and who fall under any of the following categories:

- IT consultants, system architects
- Advanced engineers in cloud, security, and other areas
- Bridge system engineers and project managers engaged in project management
- Technical specialists involved in advanced projects and upstream processes



Class

Comprehensive capabilities as a generalist, including such aspects as business improvement, client coordination, guidance, and development of talents.
(classified into 5 levels of member, sub-leader, leader, manager, and general manager)
Leader: can understand the plan for the project in which he or she is engaged, execute it, produce results, and give accurate guidance to juniors.

Grade

Technical capabilities as a player, including knowledge, experience and skills
(classified into 5 levels of beginner, associate, professional, expert and master)
Professional: has basic knowledge and experience in his or her job domain and can handle routine work by himself or herself.

Corporate Social Responsibility

SUSTAINABLE DEVELOPMENT GOALS



We believe that developing young people who are capable of creating new IT industry areas and down-to-earth young people with advanced IT skills should lead to the development of a sustainable society.

The Company not only conducts education and training for its employees but also provides training for general university students, who will play an active role in society, to acquire IT qualifications.

(More than 150 such university students acquire the qualification annually.)



We propose to our clients that they adopt virtualization of servers and storage devices, etc., and promote the use of such services. Enhancing the use efficiency of IT infrastructure equipment should lead to consolidation of servers and storage devices in terms of their unit numbers, and fewer such units will reduce the amount of heat generated from them and the power required for the equipment to cool them.

We will contribute to energy savings in IT infrastructure equipment with such virtualization technologies.



IT, which has brought convenience to people, is now beginning to play a more important role in protecting people, securing people's lives, and other aspects.

With new IT services being created on a daily basis and gradually becoming a reality all around the world, we want to make the most of the power of IT to create a better future.

Disclaimer

This material contains forward-looking statements. These statements are based only on information available to the Company at the time they were prepared.

Moreover, such statements do not guarantee the future outcomes, and involve risks and uncertainties.

Please note that actual results may differ materially from future projections due to changes in the business environment and other factors.

Such factors that may affect the actual results include, but are not limited to, domestic and overseas economic conditions and trends in industries that are related to the Company.

We assume no obligation to update or revise any forward-looking statements contained in this material if new information arises or any event occurs in the future.

In addition, the information contained in this material with respect to anything other than the Company has been cited from public information, and we have not verified or guaranteed the accuracy or appropriateness of such information.

baudroie inc.